This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

**Usage guidelines**

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

+ *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.

+ *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.

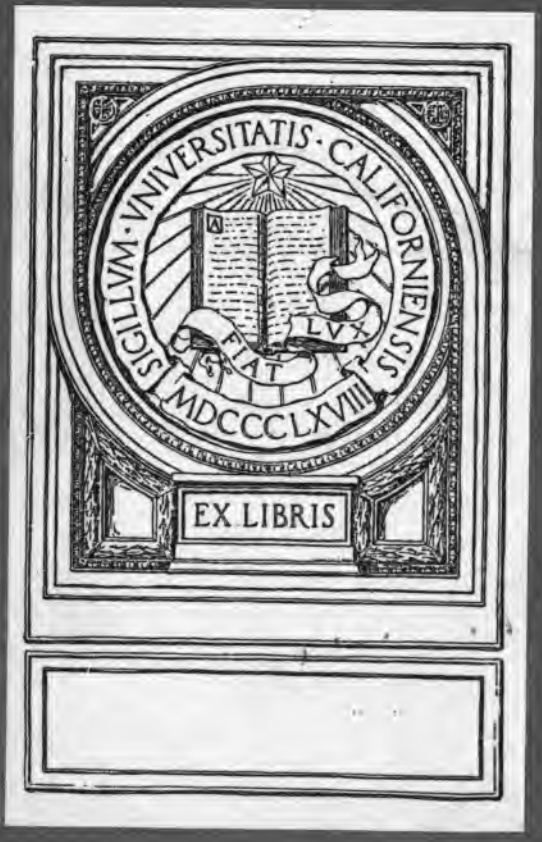
+ *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.

+ *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

**About Google Book Search**

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at `http://books.google.com/`

UC-NRLF
$B 288 211


SIGILLVM · VNIVERSITATIS · CALIFORNIENSIS
LVX
FIAT
MDCCCLXVIII
EX LIBRIS

# A LIFE INSURANCE PRIMER FOR LAYMEN AND STUDENTS

THIS BOOK HAS BEEN WRITTEN
AT THE SUGGESTION OF THE
NATIONAL ASSOCIATION OF
LIFE UNDERWRITERS
56 PINE STREET, NEW YORK
AND IS PUBLISHED UNDER THE
AUSPICES OF THE ASSOCIATION

# WHAT LIFE INSURANCE IS
## AND
# WHAT IT DOES

A PRIMER FOR LAYMEN
AND STUDENTS

BY

William Alexander Plant

THE SPECTATOR COMPANY
NEW YORK CHICAGO

HG 8171
A6

Copyright 1917
By the National Association of Life Underwriters
56 Pine Street, New York.

# PREFACE

There are no mysteries about life insurance, and the facts regarding it are exceedingly interesting. But the subject has been befogged and made dull by stupid and inadequate explanations.

The aim of this little book is—

1. To tell what Life Insurance is and what it does in so simple a manner that any intelligent person may understand all that the average layman wants to know, or needs to know on the subject.

2. To provide a *preliminary text book* for those who wish to make a thorough study of Life Insurance.

3. To furnish a simple, but comprehensive guide to those who are identified, or expect to be identified, with insurance work in the office or in the field.

W. A.

360400

In this book Life Insurance will be explained on the "participating" ("mutual") basis, as conducted under the Insurance Laws of the State of New York. After that the "non-participating" and "mixed" plans will be described.

# TABLE OF CONTENTS

## FIRST PART—LIFE INSURANCE EXPLAINED

### What it accomplishes.


I. Why people insure.
II. Insurance defined.
III. Bed-rock foundations.
IV. Object of life insurance.
V. Insurance a necessity.
VI. Evolution of insurance.
VII. Technical knowledge essential.
VIII. Law of Average.
IX. Law of Mortality.
X. Summary.
XI. What to charge.
XII. Three methods of charging.
XIII. The Reserve.
XIV. Assets, Liabilities, Reserve, Surplus.
XV. Dividends (Refunds).
XVI. Sources of Saving and profit.
XVII. Taxation.
XVIII. Importance of low death rate.
XIX. Three methods of conducting the business.
XX. Recapitulation.


## SECOND PART—THE LIFE INSURANCE COMPANY.

### How its business is conducted.


XXI. What a life company is.
XXII. How conducted.
XXIII. The most popular kinds of insurance.

Ordinary Life Policy . . §49
Limited Payment Life §62
Term Life Insurance . . §63
Pure Endowment . . . . §64
Endowment Policy . . . §65

XXIV Life Income insurance.
XXV. The Survivorship Annuity.

# TABLE OF CONTENTS
## (Continued)

---


### THIRD PART—INDUSTRIAL COMPANIES

XXVI—Insurance for the industrial classes.

### FOURTH PART—OTHER KINDS OF INSURANCE.

XXVII. Other forms and plans of insurance.

Business Insurance ....§70
Child's Endowment ...§71
Group Insurance .....§72
Instalment Policy .....§73
Joint Life Policy .....§74
Return Premium Policy §75

XXVIII. An experiment that failed.

(Illustrating the fact that a company, even if soundly based, cannot hope for permanent success if it adopts "assessment" methods.)

XXIX. Fraternal and Assessment Insurance.

### FIFTH PART—ANNUITIES.

XXX. An Annuity the converse of an Insurance Policy.

### SIXTH PART—VALUE OF LIFE INSURANCE.

XXXI. Its development and scope.

XXXII. Popular fallacies.

XXXIII. How to select a company.

### SEVENTH PART—TECHNICAL WORDS AND PHRASES.

XXXIV. Definitions and explanations.

# TABLE OF CONTENTS

## (Continued)

---

## SUPPLEMENTARY CHAPTER

**THE INSURANCE SALESMAN.**

---

## APPENDIX

**HOW TO DISCOVER CORRECT PREMIUM CHARGES.**

Natural Premium — Level Premium
Single Premium — Annuity charges

**FOR FURTHER DETAILS SEE INDEX, PAGE 161**

In the following pages a few passages, in condensed form, from the following books by the author have been utilized with the consent of the publishers.

*The Life Insurance Company*—Copyrighted and published by D. Appleton & Co., 35 West 32nd St., New York.

*The Successful Agent*—Copyrighted and published by The Spectator Company, 135 William St., New York.

The author has also drawn to some extent upon his *Correspondence Course* on Life Insurance.

# FIRST PART

## LIFE INSURANCE EXPLAINED

### WHAT IT ACCOMPLISHES

Life Insurance is based on the axiom that "In union there is strength" — on the old fable of "The Bundle of Sticks" — on the truth that a burden which would crush the individual may be borne with ease by a multitude of individuals.

# WHAT LIFE INSURANCE IS

## I. WHY PEOPLE INSURE

### 1. Preliminary Explanation

If a party of modern tourists should be shipwrecked on a desert island they would be forced to live in a very primitive way.

Finding no houses, they would build huts or seek the shelter of caves.

In the absence of roads and railways, they would cut footpaths through the jungle.

Each man would make his own clothes of skins, and his own sandals of grasses or hides.

If the natural protectors of any of the women and children in the party lost their lives, the men who survived would provide for them.

But as soon as these people got back to civilization, they would hasten to the tailor and the shoemaker. And, if wise, they would also abandon the primitive method of leaving their widows and orphans dependent on the voluntary charity of surviving friends, and would go to a life insurance company for the protection needed.

But why should they wish to shift this responsibility to a life insurance company?

For the same reason that they would cease making their own clothes and shoes—because they would thus secure the desired protection with far greater safety, economy and efficiency.

But what is a life insurance company, and what precisely are the services it renders?

Before attempting to answer these questions, we must understand what "insurance" in general is, and then determine what "life insurance" in particular is.

# II. INSURANCE DEFINED

## 2. Insurance in General

I have never seen a short and satisfactory definition of the word "insurance," and I am not sure that a concise definition can be framed. But I am sure that any intelligent person who will study the following explanation carefully will have a clear understanding of what insurance is.

Insurance is a device or plan, by means of which a large number of people are associated together for mutual protection in order that when one of their number suffers a loss, that loss shall be repaired by the contributions of his associates.

Why this scheme, when fully developed is best accomplished by means of a corporation—an insurance company—will be explained hereafter.

A simple illustration will make the foregoing statement clear.

### ILLUSTRATION

Consider the case of a man whose only possession is a building worth $20,000. If he stands alone, and the building burns he will be ruined. But if he has become a member of an association of 4,000 house-owners who have agreed to share their losses equally, his ruin will be averted; for each of his associates will come to his rescue. His $20,000 will be restored at a cost to him of the nominal sum of $5, and at a cost to each one of his associates of the nominal sum of $5.

Here we have roughly stated, the idea on which fire insurance is based, and what is true of fire insurance is also true of other kinds of insurance.

# III. FOUNDATIONS

From what has been said, it will be seen that insurance of all kinds is based on the axiom that *In union there is strength* —on the old fable of *The Bundle of Sticks*—on the truth that a burden which would crush the individual may be borne with ease by a multitude of individuals.

Hence, this whole question may be summed up by saying that:

> **Insurance in general is a device for repairing some *serious* injury, at a *moderate* charge, by bringing together a multitude of people, who agree that if a certain loss fall upon *one* of them *all* shall unite in repairing that loss.**

### 3. Life Insurance

Just as men can protect themselves against the pecuniary losses that result when buildings are burned or when ships are wrecked, so they can protect themselves against the pecuniary losses which follow in the train of death.

How this can be done can be indicated most clearly by determining exactly what life insurance aims to accomplish.

## IV. OBJECT OF INSURANCE

### 4. Aim of Life Insurance

What is the object of *life* insurance as distinguished from other kinds of insurance? Can it restore a life that has been terminated, as a fire-company can rebuild a house that has been burned? No. It merely gives compensation for some *product* of life. In its simplest form it restores to the family the value of something which is lost at the time the breadwinner dies, such as the fruits of his labors.

Other forms of life insurance give protection against losses of other kinds, but these need not concern us at present.

Few men accumulate sufficient capital to support their families after their death, and those who rely altogether on their own resources often leave their dependents in straitened circumstances.

In such a case, if the breadwinner has failed to accumulate a *capital* sufficient to produce an *income* adequate for the support of his dependents after his death, he should turn to

the insurance company. He knows that he can provide for his family as long as he lives, but he also knows that he will be powerless to do so thereafter. It is true that he could ask a relative or friend to look out for them, but it might not be possible to discover anyone sufficiently benevolent to assume so heavy a burden. Moreover, the idea would be repugnant to any independent, self-respecting man. Besides this, he would know that such charitable aid would be indefinite and uncertain, and might prove altogether inadequate. In such a case, the safest and best—usually the only—resource is to take advantage of the protection that life insurance offers.

# V. LIFE INSURANCE A NECESSITY

## 5. The Need for Life Insurance

Life insurance is not a luxury like a painting, a statue, or a precious stone. It is a necessity. And the need for it is widespread and constant.

Nor is this need a modern development: it is as old as civilization itself.

In the early days, before there were life insurance companies, surviving relatives provided after a fashion for destitute widows and orphans; or the hat was passed round among friends and acquaintances; or the municipality, through the poorhouse and the asylum, offered an inadequate substitute for insurance protection.

But the life insurance company now does with efficiency and economy what all right-thinking people wish to have done, but cannot do *themselves* except in an inadequate or blundering fasion.

## 6. What is a Life Insurance Company

A life insurance company is simply a business organization, established to furnish the people with the protection of life insurance of all varieties, in a thoroughly efficient manner.

*But every such company is sustained by the money contributed by the people who avail themselves of its services.* And although it may not be managed *by* them, it is, if properly managed, conducted *strictly in their interests.*

# VI. EVOLUTION OF INSURANCE

## 7. Evolution of Life Insurance.

Life insurance as a business had its earliest beginnings in Great Britain. But that kind of Insurance did not come first. Other kinds, including the insurance of ships and their cargoes, preceded it. The earliest experiments in life insurance, moreover, were crude and defective. And the life insurance business can hardly be said to have been established on a sound and efficient basis until *The Equitable Life Assurance Society* of London* organized its business, a century and a half ago, on a scientific foundation, by introducing the practice of grading its charges according to the age of each customer.

Since then the development of the life insurance business has been continuous—especially in the United States—and may now be said to have become a perfected system.

# VII. TECHNICAL KNOWLEDGE

But what is the scientific basis on which this business rests? Perhaps this question may be answered most clearly by the employment of a few simple illustrations:

## 8. A Novice Could Not Succeed

Forty years ago, Tony Moreno left the village of Hudson with a capital of $4.50 in his pocket. He worked his way down to the city on board a sloop, and landed at a dock where a vessel from the West Indies was discharging a cargo of fruit.

That gave him an idea: he bought some bananas and oranges and set up a fruit stand.

*The *"Old Equitable"* of London was incorporated in 1762.

He knew nothing about the fruit business, but he did know what his bananas and oranges had cost him, and he sold them at a profit, and invested the proceeds in a larger supply.

Today he is at the head of the firm of Moreno, Lorenzo & Co., the famous wholesale grocers and fruit dealers.

Now, let us suppose that you are as ignorant about the insurance business as Tony was about the fruit business. If that were the case, could you start an insurance company as he started his fruit business?

AN ILLUSTRATION.

Let us suppose that you have opened an office, and that Mrs. Richard Roe invites you to call on her, for the purpose of insuring her husband's life for $5,000, the money to be paid to her after his death.

On calling you find Mr. Roe in bed, and ask the doctor who is standing by, if his patient is seriously ill. You learn that the man is dying—may be dead in an hour, and cannot possibly last through the day.

What, in such a case, must you charge? The answer is obvious: you know that if you grant this insurance you will assume an obligation to pay $5,000 almost immediately. Consequently, your charge cannot be less than that amount ($5,000).

> It is not conceivable that you would suggest so preposterous a transaction as this; and, as it would undoubtedly occur to you that it is not customary to insure the lives of invalids, you would probably say that on account of Mr. Roe's illness you would not be able to issue a policy.

But what has enabled you to discover the proper charge in this case? Can you tell? Certainly. It is the fact that you have discovered *just when Mr. Roe will die.*

ANOTHER ILLUSTRATION.

Now let us suppose that on your return to your office you find there a man who wants $1,000 of insurance. What will you do? You will have him examined by a physician, and if he is given a clean bill of health you will be ready to proceed.

But when he asks you to name your *charge* you will be all at sea, for you will have *no means of knowing how long he will live.* Of course, you may make a wild guess and tell him that he must pay, say, $100 down, and the same sum annually thereafter.

Assuming that you have fixed this rate, let us see how it will work:

If the man is run over by an automobile and is killed on his way home, you will be out $900. Your charge will have been altogether inadequate.

But if he meets with no accident and lives for forty years, you will take in $4,000, and make a profit of $3,000 *plus* interest. You will have grossly overcharged the man.

Let us now drop these illustrations, which have served their purpose, and see if we can find out what really ought to be charged.

**We must discover the cost of insuring a large number of people before we can determine the share which each person must pay.**

## 9. The Cost of Insuring Lives.

The proper charges to make for life insurance *cannot be discovered if we attempt to deal with single cases.* It can only be done if we deal with a multitude of cases.

Why is this?

It is because we cannot know how long an *individual* will live, while the *average* length of life of a *large body* of people can be determined with substantial accuracy, in accordance with the scientific principle called the *Law of Average.*

Let us glance for a moment at this law.

## VIII. LAW OF AVERAGE

### 10. Law of Average

If you pitch a penny three times it may come up heads every time. But you will make a mistake if you conclude from this that a tossed penny will always come up heads. Everyone knows that if we toss a coin a number of times tails are likely to come up as often as heads. And if we toss it a sufficient number of times to give the Law of Average the opportunity of working smoothly, the uniformity of the result will be remarkable. For example, if we toss the coin 20,000 times, the result will be approximately as follows:

Heads 10,000 times. Tails 10,000 times.

These are familiar truths, but it is not so well known that the Law of Average applies also with substantial accuracy to what are seemingly the most eccentric of happenings. Sometimes, for example, the sender of a letter forgets to put a postage stamp on the envelope. At first blush, the attempt to apply any fixed law to such an accident would seem preposterous, but experience proves that in a great central office where millions of letters are posted, the proportion that will be unstamped in a given year can be predicted with some degree of accuracy.

## IX. LAW OF MORTALITY

### 11. Law of Mortality

Thus it is with life. Charles Babbage, who wrote with authority more than a century ago, said "Nothing is more proverbially uncertain than the duration of human life when the maxim is applied to an individual, but there are few things less subject to fluctuation than the average duration of life in a multitude of individuals." And Dr. Southwood Smith, another authority, went so far as to say that "Mortality is subject to a law the operation of which is as regular as that of gravitation."

The *uncertainty* regarding the life of the *individual* makes life insurance *necessary*. The *certainty* regarding the life of a *multitude of individuals* makes it *possible* and *safe*.

By carefully studying the Law of Average as applied to the duration of human life, statistics were gradually gathered and tabulated, and finally what are called *tables of mortality* were successfully constructed.

Every such table was based at first on the recorded death rate of some city. Every modern table is based on more accurate statistics, such as the experience of some insurance company or group of companies.

## X. SUMMARY

Let us pause for a moment to bring together the truths that have been established, and to determine what problems remain to be solved.

We have seen that a life insurance company is nothing more nor less than a large body of people banded together for mutual protection, and that the interests of those who die are thus safeguarded by the contributions of those who survive.

How this is possible has been shown in § 2 by means of a simple illustration.

But everyone knows that it is not necessary for the man who wants protection to form an independent organization. He can go as an individual to a company already established, and can obtain the amount and kind of insurance desired.

But how is the company to know what charge to make? We have seen that the answer to this question is that the only way is to find out first what the cost will be for a *large body of people*. After that, by applying the Law of Average the share which each individual should pay can be determined.

But how can this be done? How is it possible to frame price lists (tables of premium rates) for different kinds of insurance, some kinds costing more to grant than others, and all varying according to the age of each individual?

The answer is that correct charges are determined by means of a *Mortality Table*.

# XI. HOW TO DISCOVER WHAT TO CHARGE

## 12. Mortality Table

One of these tables, the *American Experience Table*, is the one used by the Insurance Department of the State of New York, and by most of the companies.

This table starts with 100,000 persons, all 10 years of age; and according to the table, 749 of them will die before the end of the year; leaving 99,251 to reach the age of 11.

During the following year, 746 will die, leaving 98,505 to attain the age of 12.

Thus a definite number will die from year to year until at age 95 only 3 will remain. And presumably these three will die before reaching the age of 96.

THE AMERICAN EXPERIENCE TABLE OF MORTALITY

| Age | No. Surviving at Each Age | Deaths Each Year | Age | No. Surviving at Each Age | Deaths Each Year |
|---|---|---|---|---|---|
| 10 | 100,000 | 749 | 54 | 65,706 | 1,143 |
| 11 | 99,251 | 746 | 55 | 64,563 | 1,199 |
| 12 | 98,505 | 743 | 56 | 63,364 | 1,260 |
| 13 | 97,762 | 740 | 57 | 62,104 | 1,325 |
| 14 | 97,022 | 737 | 58 | 60,779 | 1,394 |
| 15 | 96,285 | 735 | 59 | 59,385 | 1,468 |
| 16 | 95,550 | 732 | 60 | 57,917 | 1,546 |
| 17 | 94,818 | 729 | 61 | 56,371 | 1,628 |
| 18 | 94,089 | 727 | 62 | 54,743 | 1,713 |
| 19 | 93,362 | 725 | 63 | 53,030 | 1,800 |
| 20 | 92,637 | 723 | 64 | 51,230 | 1,889 |
| 21 | 91,914 | 722 | 65 | 49,341 | 1,980 |
| 22 | 91,192 | 721 | 66 | 47,361 | 2,070 |
| 23 | 90,471 | 720 | 67 | 45,291 | 2,158 |
| 24 | 89,751 | 719 | 68 | 43,133 | 2,243 |
| 25 | 89,032 | 718 | 69 | 40,890 | 2,321 |
| 26 | 88,314 | 718 | 70 | 38,569 | 2,391 |
| 27 | 87,596 | 718 | 71 | 36,178 | 2,448 |
| 28 | 86,878 | 718 | 72 | 33,730 | 2,487 |
| 29 | 86,160 | 719 | 73 | 31,243 | 2,505 |
| 30 | 85,441 | 720 | 74 | 28,738 | 2,501 |
| 31 | 84,721 | 721 | 75 | 26,237 | 2,476 |
| 32 | 84,000 | 723 | 76 | 23,761 | 2,431 |
| 33 | 83,277 | 726 | 77 | 21,330 | 2,369 |
| 34 | 82,551 | 729 | 78 | 18,961 | 2,291 |
| 35 | 81,822 | 732 | 79 | 16,670 | 2,196 |
| 36 | 81,090 | 737 | 80 | 14,474 | 2,091 |
| 37 | 80,353 | 742 | 81 | 12,383 | 1,964 |
| 38 | 79,611 | 749 | 82 | 10,419 | 1,816 |
| 39 | 78,862 | 756 | 83 | 8,603 | 1,648 |
| 40 | 78,106 | 765 | 84 | 6,955 | 1,470 |
| 41 | 77,341 | 774 | 85 | 5,485 | 1,292 |
| 42 | 76,567 | 785 | 86 | 4,193 | 1,114 |
| 43 | 75,782 | 797 | 87 | 3,079 | 933 |
| 44 | 74,985 | 812 | 88 | 2,146 | 744 |
| 45 | 74,173 | 828 | 89 | 1,402 | 555 |
| 46 | 73,345 | 848 | 90 | 847 | 385 |
| 47 | 72,497 | 870 | 91 | 462 | 246 |
| 48 | 71,627 | 896 | 92 | 216 | 137 |
| 49 | 70,731 | 927 | 93 | 79 | 58 |
| 50 | 69,804 | 962 | 94 | 21 | 18 |
| 51 | 68,842 | 1,001 | 95 | 3 | 3 |
| 52 | 67,841 | 1,044 | 96 | 0 | 0 |
| 53 | 66,797 | 1,091 | | | |

## 13. Natural Method

Now, let us see how this table can be utilized in determining the cost of insuring the lives of a body of men. (Ignoring *interest* and *expenses* temporarily.)

In order that the explanation shall be clear and simple let us assume that the members of this body are all of the same age (50), that the amount of insurance in each case is to be $1,000, and that the number forming the body corresponds with the number of survivors in the Table at age 50; namely 69,804 persons.

Let us now see what it will cost (disregarding interest and expense) to insure these persons, for $1,000 each for one year.

A glance at the Table will show that there will be 962 deaths during the year. Hence, these people would find it necessary to contribute a fund amounting to $962,000 ($1,000 x 962). And the sum which each contributor would have to pay would be $13.78; for $962,000 (the sum required) divided equally among 69,804 persons (the number contributing) is $13.78.

($962,000 ÷ 69,804 = $13.78.)

If it should be desired to insure the surviving members of this body for another year, would the charge in each case be the same as for the previous year?

No. The charge must be higher, the contributors will be fewer and there will be a larger number of death claims to pay.

The charge for each person for the second year must therefore be $14.54; for $1,001,000 must be paid, and that sum divided among 68,842 persons would make the contribution of each $14.54.

For a third year, $1,044,000 would be needed, and the charge against each person would be still higher ($15.39) for there would only be 67,841 contributors and the number of deaths would be 1,044.

For the fourth year the rate would be $16.33, and for the fifth year, $17.40.

## XII. THREE WAYS OF CHARGING

### 14. Natural Premium

From the above, it will be seen that if insurance is paid for from year to year, the cost will necessarily increase from year to year.

When insurance is charged for in this way, we have what is called the "natural" method of charging. And each payment which the policyholder must make is called the "natural" premium.*

### 15. Single Premium

But experience proves that people do not like to pay for their insurance on the "natural" basis, because of the steadily *increasing* charge. Consequently other methods have been devised. One of these is to charge a single premium, so that one sum payable in advance shall be sufficient to carry the insurance until its maturity.

> The correct single premium is that sum which if paid in advance will be equivalent to the *series* of payments provided for under the "natural" plan.

While all the companies are ready to issue insurance on the single premium plan, few people are able or willing to thus pay a large sum in advance.**

### 16. Level Premium

So the companies have devised a third plan. This is called the "level premium" plan. It is so called because a rate equivalent to the "natural" rate, and to the "single premium,"

*Further explanations regarding this method of charging will be found in § 304, but need not be considered at this time.

**Further explanations of the single premium are given in § 305, but need not be considered at this time.

is framed in such a way that a *uniform* charge shall be made—so that the premium shall be *for the same amount from year to year.*

## 17. Popularity of the Level Premium

Substantially all the "regular" * life insurance companies transact their business on the level premium basis. Consequently, we must go more into detail in describing it. To this end, the question of *interest* must now be taken up.

## 18. Interest

Even if the business could be conducted without expense the mortality table would not by itself show the rates which ought to be charged. This is because the table takes no account of *interest.* But the premiums paid to the company *are invested and earn interest*; so the company gives the policyholder the benefit of interest. This slightly reduces the rates derived from the Mortality Table.

> Just here it should be noted that in computations of this kind the actuaries assume that all *premiums* are paid at the beginning of the year, and that *death claims* are not paid until the end of the year. As a matter of fact, claims are paid from time to time during the year as the policies mature. But in computing premiums the policyholder is given the benefit of the foregoing assumption. Any small deficiencies resulting from this course are taken care of in providing for expenses.

But the exact amount of interest which the company will earn in the future cannot be known in advance. Hence a rate must be *assumed.* And as this assumed rate will apply to contracts that may extend for many years into the future, the rate must be *conservative.* There was a time when 5% was assumed; at later dates, 4½%, 4% and 3½% were employed. At present the rate most frequently adopted is 3%.

*The "regular" companies are sometimes called "legal reserve" companies or "old line" companies.

## 19. Pure Premium

As soon as interest has been deducted from the rate derived from the Mortality Table we have what is called the *Pure Premium.*

This is often called the *net* premium. But the word *net* is ambiguous; for the policyholder regards the premium he pays, less his dividend (refund) as the net rate. Hence, in this connection, it is better to use the word "pure" than the word "net."

## 20. Gross Premium

Does the pure premium represent the sum a man must pay who goes to a life insurance company for insurance? By no means. No business of any kind can be transacted without expense; consequently, the pure premium must be increased by a "loading" to provide for expenses and contingencies. When thus increased, we have the GROSS PREMIUM—the actual sum which the policyholder must pay.

## 21. How is the Loading Determined?

Just as an insurance company cannot tell in advance what rate of interest it will earn, so it cannot tell in advance exactly what its expenses will be. But years of observation and experience enable it to make a close estimate, in order that the loading shall be adequate without being excessive. And when the business is conducted on the "participating" ("mutual") basis, the policyholders suffer no permanent injury even if the loading should be larger than is necessary, for after they have received their dividends (refunds) they will have obtained their insurance substantially at cost.

## 22. Amount of the Gross Premium not all Important

The gross premium is usually obtained by adding a certain percentage of the pure premium to the pure premium—that

is, to *itself*; (See §306 and §307). But the members of a "participating" company should not be chiefly interested in getting their insurance at the *lowest* possible rate. Their chief anxiety should be to satisfy themselves that their company is charging rates which are sufficiently *high*. This is because safety should be their first consideration. And, as they are more like partners than mere customers, it is better that the rate should be too high than too low, since any excess payments will ultimately be returned in the shape of REFUNDS.

## 23. Premiums Graded According to Age

All companies conducted on sound principles grade their charges strictly according to age, as follows:

When premiums are paid on the "natural" basis the amount of the first premium is determined by the age of the policyholder at the time the insurance is taken, and all subsequent premiums will increase from year to year.

When the insurance is on the single premium plan, the amount of the one payment is determined by the age of the policyholder at the time the insurance is taken, and that will end the transaction as far as premium payments are concerned.

When the insurance is taken on the "level" basis, the rate is determined by the age of the policyholder when the insurance is taken, and the rate will remain the same thereafter throughout the history of the policy.

SECTIONS IN THE APPENDIX DEALING WITH PREMIUM RATES

The Natural Premium..§ 304.
The Single Premium...§ 305.
The Level Premium ...§ 306.

# XIII. THE RESERVE

## 24. Reserve.

We have seen that if insurance is paid for on the "natural" basis the premium will necessarily increase from year to year. It follows from this that if an equivalent level rate is charged, that rate will necessarily be higher than the "natural" rate during the policy's earlier years, and lower than the "natural" rate later on. This being so, it is obvious that under the level premium plan, the overpayments during the earlier years *must be held for the purpose of making up the deficiencies in the later years.* This is shown by the following table:

TABLE

The history of 1,000 Policies for $1,000 each, issued at Age 40, and extending over a Period of 60 Years.

| 6 Periods of 10 Years each | Pure Level Premiums Age 40 | Death Claims | Excess of Premiums over Claims | Excess of Claims over Premiums | Interest earned 3% | Reserve at end of each Period |
|---|---|---|---|---|---|---|
| 1st period... | $236,106 | $106,000 | $130,106 | ..... | $28,311 | $158,417 |
| 2d period... | 205,745 | 152,000 | 53,745 | ..... | 72,373 | 284,535 |
| 3d period... | 158,245 | 248,000 | ..... | $89,755 | 95,193 | 289,973 |
| 4th period.. | 87,287 | 309,000 | ..... | 221,713 | 71,929 | 14 0,189 |
| 5th period.. | 21,904 | 174,000 | ..... | 152,096 | 21,792 | 9,885 |
| 6th period.. | 520 | 11,000 | ..... | 10,480 | 595 | 0 |

Based on the American Experience Table and 3% interest

### EXPLANATION OF FOREGOING TABLE

It will be seen from the above table that during the first period of ten years the premiums have been sufficient to pay all the death claims, leaving a surplus of $130,106. As this surplus has not been needed to pay the death claims it is obvious that it could be lost or wasted without resulting in any *immediate* injury.

During the second period of ten years, the premiums have also been sufficient to pay all the death claims, leaving a surplus of $53,745. This surplus might also be lost or wasted without *immediate* injury.

But if this money should thus be wasted, disaster would inevitably follow before the end of the third period; for the premiums for that period *are less than the death claims.*

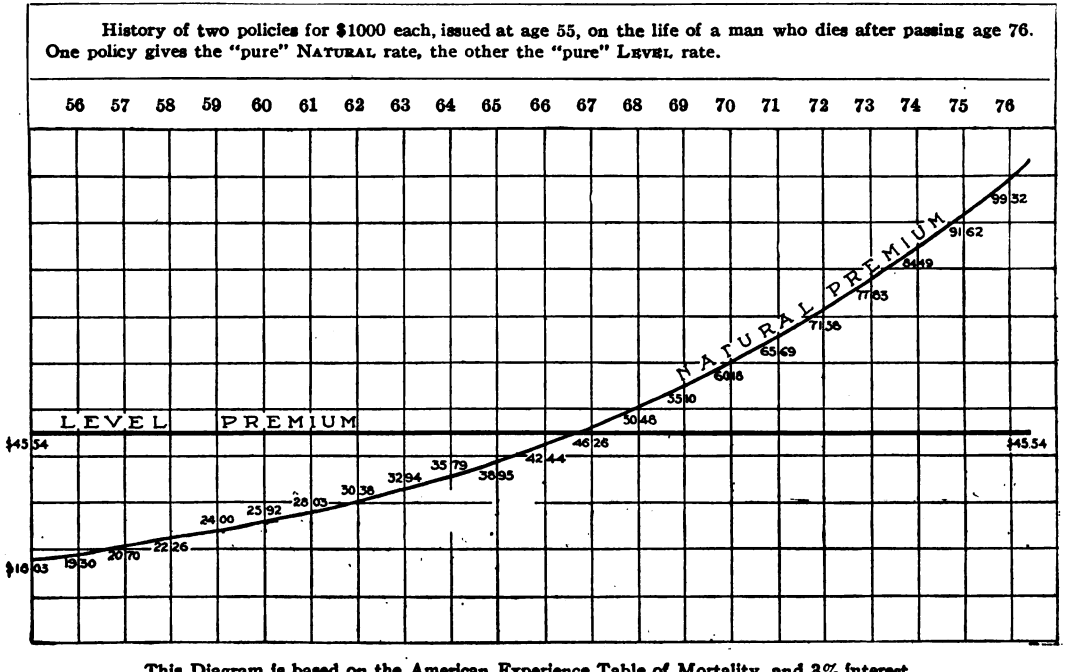
And during the three subsequent periods the premiums are also less than the death claims.

From all this it is obvious that although the surplus funds accumulated during the earlier years are not needed for the time being, they will be needed later on. When, therefore, the business is conducted on the level premium basis, the company *must* accumulate a reserve fund, in order that it may be able to meet its future, as well as its present, obligations. This fund is called the "Insurance Reserve," or simply the RESERVE.

The absolute necessity for an adequate RESERVE is illustrated in another way by the following diagram.

**The reserve is a sacred fund which must be guarded with the utmost vigilance; for if the resources of a Company are so impaired as to eat into the reserve, the Company will necessarily become insolvent.**

# DIAGRAM




This Diagram is based on the American Experience Table of Mortality, and 3% interest.

## EXPLANATION OF DIAGRAM

The spaces from left to right indicate the age.

The "natural" premium is represented by a curved line, indicating a steady increase in the premium from year to year, beginning at $18.03 and running up to $99.32.

The "level" premium, indicated by a horizontal line, is $45.54 at the start, and remains the same throughout the history of the policy.



It is obvious from the diagram that the "level" premiums are *more* than sufficient during the first half of the period, but *inadequate* during the second half. Hence the necessity of saving the *excess* payments during the first half to make up the deficiencies in the payments during the second half. The fund created by the accumulation of these excess payments form the RESERVE on the Level Premium Policy.

N. B. The equivalent premium on a Single Premium Policy would be $609.92. As such a policy provides for but one payment, it needs no diagram to explain it.

# XIV. ASSETS, LIABILITIES, RESERVE, SURPLUS

## 25. Reserve Illustrated

To show just what the RESERVE is, let us examine some of the items in the *balance sheet* issued at the end of the year, by a company of moderate size, such as the *Typical Company*.

**ITEMS FROM THE BALANCE SHEET OF THE TYPICAL LIFE INSURANCE COMPANY**

| | | |
|---|---|---|
| ASSETS, December 31 | | $ 36,854,327.70 |
| LIABILITIES | | |
| RESERVE | $28,377,832.33 | |
| All other liabilities | 1,009,808.59 | 29,387,640.92 |
| SURPLUS | | 7,466,686.78 |
| INSURANCE IN FORCE, December 31 | | $171,556,895.00 |

It will be inferred that the liabilities of an *insurance* company will consist largely of *insurance* obligations. This is true. And this truth is illustrated in the case of the *Typical Company* whose liabilities consist almost altogether of the RESERVE ($28,377,832.) which represents its *insurance* obligations. As will be seen, the *rest* of its liabilities are a comparatively small sum ($1,009,808.)

## 26. The Reserve a present liability

But the novice who examines the foregoing items taken from the balance sheet of the *Typical Company* will be startled to observe that its RESERVE, ($28,377,832) increased by its SURPLUS ($7,466,686) is all the money the company has to pay its Insurance in Force, which amounts to $171,556,895.

Naturally he will wonder how a large sum can be paid out of a small sum—the latter in this case being only one-fifth part of the former. But the explanation is not far to seek:

The RESERVE represents only the *present* insurance liability of the company. If all its policies should mature *immediately*, this RESERVE would be altogether inadequate. But all its policies will *not* mature immediately: they will fall due gradually as shown by any reliable mortality table. Thus time will be given for the RESERVE to be increased by *interest* and by the *premiums* policyholders will pay. And thus increased, the RESERVE will pay all these policies as they fall in.

DEFINITION

> The RESERVE is that sum of money which, increased by future interest and future premiums, will be sufficient to pay all the outstanding policies of the company, as they mature.

## 27. Reserves on individual policies

We must carefully distinguish between the total RESERVE and the reserves on individual policies. The total RESERVE represents the fund needed to take care of all the policies, and consists of the sum of the reserves credited to the individual policies.

> Just here it must be noted that the reserve on any given policy may be either adequate or inadequate to take care of that particular contract. If, for example, the Insured dies before any substantial amount has been accumulated, the reserve in that case, if viewed independently of other cases, might seem inadequate. But no injury will result to the company, because the sum of the reserves on all the policies will be adequate to take care of all the policies taken in the mass.

## 28. Amount of Reserve

The chief duty of the Actuary of every company is to see that an adequate RESERVE is maintained at all times, and the most important duty of every Insurance Department is to check off each Insurance company transacting business within its jurisdiction, so as to be certain that this has been done.

The RESERVE is discovered by "valuing the policies"; that is to say actuarial computations are made to determine the present obligations of the company under its outstanding policies.

As long as a company maintains an adequate RESERVE its policyholders may be protected; for if the company should deem it expedient to go out of business, or should be forced to close its doors, the RESERVE would provide sufficient money to re-insure its risks in another company. Hence, the RESERVE has sometimes been called the "Re-insurance Fund."

If the insurance company had no obligations except its *insurance* obligations, the difference between its ASSETS and its RESERVE would be its SURPLUS. And, as we have seen, this comes near being the actual situation, because a properly conducted company has, comparatively speaking, very few other obligations. Nevertheless, any additional obligations must be added to the RESERVE to determine the total LIABILITIES. And if we wish to determine the exact amount of the SURPLUS, we must deduct the total LIABILITIES from the ASSETS.

## 29. Surplus.

If you will refer again to the *Typical Company* (§25) you will see that if from the ASSETS amounting to $36,854,327.70
we deduct the LIABILITIES..... 29,387,640.92

we shall have the SURPLUS..... $7,466,686.78

Now all these surplus-assets of $7,466,686.78 could be swept away, and the company would still be solvent—but barely solvent. Hence SURPLUS is worth preserving; for a barely solvent insurance company would obviously be in a very precarious situation.

## 30. The need of surplus.

It is as essential for an insurance company to have an adequate Surplus, as a bank, trust company, or any other business organization. And for two reasons:

(a). To insure the stability of the company—to guarantee adequate protection to its policyholders.

(b). To enable the company to pay REFUNDS (dividends) to its policyholders.

The only fund from which REFUNDS can be paid legitimately is the SURPLUS. This is because the rest of the company's assets will be needed to meet its liabilities (the RESERVE to meets its *insurance* obligations, and the remainder to provide for its *miscellaneous* obligations.)

Some companies break surplus up into separate items, and call these items by other names; but, the actual surplus can always be determined by applying the following test: Any balance of assets over liabilities is surplus if it can be used to repair losses or injuries to the company, or can be apportioned to policyholders in the shape of REFUNDS. It ceases to be surplus, even if still held by the company, as soon as it has been appropriated to meet a definite obligation, or has been apportioned as REFUNDS on individual policies.

If it is set aside to provide for some *possible* contingency then it will be, so to speak, surplus with a string to it, and will be called a "contingent liability."

# XV. DIVIDENDS

## 31. Dividends

It is unfortunate that the payment made from SURPLUS to a policyholder is called a "dividend." But no single word, or short phrase, can be found to describe with absolute precision what this so-called dividend is.

The most accurate name is "*return premium.*" A shorter and more convenient name is REFUND. But neither is sufficiently comprehensive. Consider the policies of a company conducted on the "participating" basis, on which level annual premiums are being paid. These premiums, as we have seen, are higher than is necessary. Consequently at the end of the year when the company has determined the actual cost of this insurance, the sum representing the *unused* portions of the premiums paid will be transferred to SURPLUS. Then, from this SURPLUS a sufficient sum will be set aside to pay each of these policyholders a REFUND, the aim being to give him (without impairing the stability of the company) a sum which will so reduce the Gross Premium as to give him his insurance at approximately *cost price.*

If this were all, it would be strictly accurate to describe these dividends as "return premiums" or "refunds." But there may be, and usually is, a slight addition resulting from other savings or profits, and to that extent the payment is an actual *dividend.*

## 32. How refunds may be utilized.

While it is true that a REFUND may be used as so much cash to reduce the premium, it may be utilized in several other ways.*

*As explained in § 99.

# XVI. SOURCES OF SAVINGS AND PROFITS

## 33. What refunds consist of

The following are the sources of the savings and profits of which REFUNDS are composed.

*1. Mortality Savings.* A company in computing its premium rates assumes that the mortality among its policyholders will be no greater than is indicated by the mortality table on which its premiums are based. But the actual death rate may be lower than that indicated in the table. If so, something will be saved.

*2. Savings in Interest.* Every company expects to earn, and as a matter of fact does earn, a higher rate than it assumes. If 3% is assumed, all receipts from interest over and above that rate will be credited to SURPLUS.

*3. Savings in Expenses.* In the same way the company assumes a certain rate of expense, and if by economy its expenses are less than it has estimated, the saving will be credited to SURPLUS.

*4. Profits.* All profits increase Surplus. If, for example an investment has been made and is subsequently sold, and if the price secured is higher than the price paid, there will be a margin of profit which must be credited to SURPLUS.

# XVII. TAXATION

## 34. Taxing the savings of policyholders

It is well that when standard premium rates were established many years ago, the companies added a sufficient "loading" to the pure premium to provide for contingencies, for at that time the insurance companies were not taxed, and in fixing premium rates no specific provision was made for taxes. It was observed that, as a rule the savings of the people deposited in savings banks were exempted from taxation, and it was natural to assume that the savings of the people deposited with insurance companies would be exempted also.

Later on, however, insurance departments were established in the various States to supervise the companies. That the companies should be called upon to pay the legitimate expenses of these departments was reasonable, and when moderate taxes were imposed for that purpose, there were no protests on the part of the companies. Usually these taxes represented a small percentage of the Premium Income of each company; and as the companies were not very large the amount which each company was called upon to pay was moderate. But as the companies grew, these taxes grew until the burden became intolerably heavy.

### WHY POLICYHOLDERS HAVE NOT PROTESTED

The reason policyholders have been apathetic about taxation is due to the strange popular delusion (which is not only entertained by the public at large, but by many senators, congressmen and state legislators) that the company can be taxed without injuring the policyholder. But every penny paid in taxes by a company conducted on the participating plan reduces the Surplus of that company to that extent. And every reduction in Surplus reduces the REFUNDS to policyholders.

The reason policyholders have ignored this fact is that their *premiums* have not been increased. They have not been called upon to *disburse* any money. But the companies have been forced to reduce their REFUNDS in order to pay these taxes. Consequently, although the policyholders have not paid these taxes directly, they have paid them indirectly.

It sometimes happens that a policyholder is disappointed and complains that the REFUNDS paid to him have not been as large as he expected; and as a rule such complaints have been directed against the company and its management, and not against those who are responsible for these taxes; namely, the lawmakers who have levied them. In some cases policyholders who have complained *have also been legislators who have voted in favor of taxing life insurance companies*, and

have thus been directly responsible for the fact that the REFUNDS they have received have not increased more rapidly.

The remedy for this evil is in the education of the people, in order that they shall send intelligent and well informed men to Congress and to the State Legislatures—men who will see clearly that the taxation of thrift is as shortsighted as it is unjust.

> When the people are thoroughly educated, our lawmakers will cease taxing thrift.

## XVIII. IMPORTANCE OF A LOW DEATH RATE

### 35. Medical examinations, why necessary

If the Law of Mortality indicates that people normally situated die in accordance with a fixed law, why does the company require each applicant to be examined by a physician and pronounced a satisfactory risk before it will issue a policy on his life? If the Law of Mortality is reliable, why the need of these examinations? If some policyholders die prematurely will not the result on the average be satisfactory whether applicants have been examined or not?

This is a pertinent question and must be answered.

### 36. Insurance is not compulsory

If *all* the people were compelled to insure, or if they would *all* apply voluntarily, medical examinations could be dispensed with, because the Law of Mortality would then work without interference.

## 37. Adverse selection

But no company can compel people to insure. It can only insure those who apply. And if any company should announce that it would accept every person who applied, healthy people would remain away, and invalids, including those with one foot in the grave, would flock to it. Thus what is called "adverse selection" would saddle upon it a body of policyholders, who, instead of dying in accordance with the mortality table, would die very much more rapidly.

## 38. Careful selection means profit

No skillfully managed company, moreover, is content to have its death rate barely correspond with the mortality table it employs. Its aim is to select its risks so carefully that its death rate shall be lower than the rate assumed. Success in this direction will have a twofold advantage: the company will be stronger, and the cost to policyholders will be reduced.

But it should be carefully noted that the medical examination is not for the purpose of finding perfect human specimens. The aim is simply to rule out invalids, and to prevent fraudulent transactions. Nor is the examination the painful ordeal that many sensitive people imagine. It is such an examination as every prudent man should ask his family physician to make from time to time for his own guidance.

# XIX. THREE METHODS OF CONDUCTING THE INSURANCE BUSINESS

Thus far life insurance as conducted on the participating (mutual) basis has been described. But there are two other recognized methods: One is the *Non-participating* (*stock*) Plan. The other is the *Mixed* Plan.

The differences between the participating plan, and the two other plans may be shown by a simple illustration:

**ILLUSTRATION**

If a party of travelers wished to take a European excursion they might proceed in any one of the following ways:

1. The party might form an association, each member contributing his share of a general fund sufficiently large to *certainly* pay the total cost of the trip, it being understood that on the return of the party each one would receive back his share of the amount left over.

*That illustrates the mutual plan.*

2. Or, the party might go to a responsible tourist agency, and each member pay a fixed sum (representing a fairly close approximation to the probable cost) with the understanding that if the cost of conducting the excursion should be less than the aggregate sum deposited, the savings would belong to the agency, and that if the cost should be more than the aggregate deposited, the agency would stand the loss.

*That illustrates the stock plan.*

3. Or, the party, instead of forming its own organization, might pay their contributions to the agency, on the basis of Plan 1, but with the understanding that the money left over should be returned to the tourists less a certain percentage of the amount saved, which should be retained by the agency.

*That illustrates the mixed plan—a compromise between the stock plan and the mutual plan, as its name suggests.*

## 39. Mutual plan

When the business is conducted on the participating basis, the policyholder becomes a sort of partner. That is not his legal status, but the word roughly indicates his relation to the organization. The company, if properly conducted, is managed for the benefit of the policy holders exclusively. It

is true that they must pay premiums a little higher than may be necessary, but the ultimate cost will be reduced by REFUNDS.

## 40. Stock plan

Under the stock plan the company adds to the pure premium a very moderate loading, and sells its policies at the fixed rate thus determined. It is assumed of course that the rate will be adequate, or rather that it will be something more than adequate, but not much more, because it is understood that anything saved shall go to the stockholders and not to the policyholders. The equity of this is obvious: the shareholders of the company—its proprietors—guarantee that if the premiums prove inadequate they must suffer the loss; and to make this guarantee good, they must provide their company with a stock capital (in addition to the assets contributed by the policyholders) so that if during any year the insurance costs more than they receive, they shall have an adequate fund from which to make up the deficiency. And as they take the chance of such a loss, their contention is that they are entitled to any savings that may be made. All this being so, it is obvious that *the capital stock of such a company ought to be large.*

A company conducted on the participating plan needs no capital, or if the law demands a capital, a merely nominal amount will be adequate.

## 41. Mixed plan

A company conducted according to the "mixed" method has a capital in addition to the assets contributed by policyholders. It offers its insurance on the participating plan. The premium charged usually corresponds with that charged by a mutual company, and dividends are similarly returned to the policyholder. But the company does not agree to pay all the divisible surplus to its policyholders; it reserves a portion for the shareholders who are the owners of the capital

stock. Thus it will be seen that the "mixed" company conducts its business substantially on the mutual plan, although only a part of the savings go to the policyholders.

## 42. The three methods compared

The chief arguments advanced by the advocates of these three systems are as follows:

> The advocates of the "participating" plan commend it, (1) because of its safety, and (2) because they claim that the ultimate cost to policyholders will be, or ought to be, less than under either of the other plans.
>
> The advocates of the "non-participating" plan contend (1) That people prefer to have definite knowledge in advance of the exact amount of each premium; (2) that as the stockholders have risked a considerable amount of their own money in the business they will manage it with exceptional caution and energy; and (3) that the moderate premium which the policyholder must pay at the start will remain unchanged throughout the history of the contract.
>
> The advocates of the "mixed" plan contend, (1) That the government and control are as definite and secure as in the case of the stock company; (2) that the zeal of the shareholders will insure so successful a management that, after setting aside for themselves a percentage of the profits, they will be able to pay policyholders a dividend nearly or quite as large as could a purely mutual company, and (3) that the capital stock provides additional security for the policyholders

# XX. RECAPITULATION OF THE TRUTHS THUS FAR ESTABLISHED

## 43. Recapitualtion

We have seen that a life insurance company is an *association* of *members* banded together for mutual advantage.

---

The company is managed by directors and officers, but they act as the representatives of the policyholders. *The policyholders really constitute the company.* Every member pays a certain premium each year (the charge being larger or smaller according to his age, the amount of insurance taken and the kind of policy selected) and the payments made will be adequate *on the average*, for, although some policyholders will die soon and pay less, others will live longer and pay more. Thus an aggregate sufficient to pay all the policies as they mature will be contributed.

---

There is no guess-work about the conduct of this business. It is founded on scientific principles, and its charges are based on a knowledge of the approximate cost of assuming life insurance risks of all kinds.

---

Premiums are graded in accordance with a fixed law, called the LAW OF AVERAGE. This law, when applied to the duration of life is called the LAW OF MORTALITY, and *tables of mortality* are constructed to illustrate the workings of this law.

Premiums are computed as follows, (1) The proper charge in each case is determined from the Mortality Table. Then an *allowance* is made for interest, producing the *pure* premium. Then a *charge* is made—that is, a "loading" is added to the pure premium—for expenses and contingencies—producing the *gross* premium.

The GROSS PREMIUM represents the correct price which the policyholder must pay. Something more than is absolutely necessary is charged in each case, in order that the company may be permanently secure beyond all peradventure. But if the business is conducted on the participating (mutual) plan, the members will get their insurance substantially at *cost*, because the company must restore to them, from time to time in REFUNDS (dividends) such overpayments as they have made. *

---

The fund consisting almost altogether of contributions from members constitutes the ASSETS of the company. This fund is invested and earns interest.

A large part of the ASSETS constitutes the RESERVE or RE-INSURANCE FUND. This consists of those *portions* of the premiums paid on policies while they are young which are in excess of current needs, but which *will* be needed to sustain the same policies when they grow older.

This RESERVE then, is the fund which (when increased by future interest and future premiums) will be adequate to pay all outstanding policies as they mature.

---

To this RESERVE must be added any miscellaneous obligations in order to determine the total LIABILITIES.

And the difference between ASSETS and LIABILITIES is the SURPLUS.

When the actual cost of carrying the risks has been determined, the unused portions of the premiums paid, are credited to SURPLUS. And the SURPLUS of an insurance company consists chiefly of these margins, but if there are other savings or profits they will also be included.

---

The SURPLUS representing the company's *extra* or *surplus* assets, is the fund from which REFUNDS (dividends) are paid

*If the business is conducted on the non-participating or mixed basis, advantages of a different kind (as shown in §42) are secured.

to policyholders—the only fund from which dividends can be legitimately paid.

But the chief value of SURPLUS is that it insures the financial strength of the company, protecting the members in case of depreciation in the value of assets, or losses due to an increase in expenses, excessive mortality, or waste of any kind. Hence, although the company may, and does, pay out surplus every year, it must never distribute all its surplus. It must keep a certain proportion on hand as a safety fund.

When these computations have been made, the exact financial condition of the company is revealed.

If the liabilities *exceed* the assets then the solvency of the company has been impaired. If the liabilities are *equal to* the assets then the company is barely solvent—it is in a position of "tottering equilibrium." If the liabilities are *less* than the assets, then there will be a surplus and the financial strength of the company will be measured by the amount of that surplus.

These facts are of great importance, for they indicate to the public that the strength of an insurance company can be measured as accurately as that of a bank or trust company, and that its financial condition can be shown as clearly from year to year as that of any other business organization.

# SECOND PART

## THE LIFE INSURANCE COMPANY

### HOW ITS BUSINESS IS CONDUCTED

The premiums quoted in this book are the highest charged by any of the "regular" companies. Some of the companies charge a little less.

A life insurance company is simply an organization established to furnish the people with thoroughly efficient life insurance of all kinds. Such an organization is given corporate form that it may have a permanent existence, that it may be subject to protective laws, and that it may be placed in charge of directors and competent officials, in order that its affairs may be administered with absolute safety, expert skill, and the greatest possible economy.

Every life insurance company is supported by the people who avail themselves of its services. As a matter of fact they *are* the company, and although it may not be managed *by* them, it is, if properly conducted, *governed strictly in their interests.*

# XXI. WHAT A LIFE INSURANCE COMPANY IS

## 44. What the company is not

If a man goes to a shop and buys a pound of tea, he is simply a purchaser. Now, most people regard the insurance company as a great shop, and life insurance as a commodity which they can purchase as they would buy packages of tea. This misapprehension is strengthened by the circumstance that of late it has been found convenient to call the insurance agent a "salesman", and the applicant for insurance a "purchaser." As a matter of fact, the agent is far more than an ordinary salesman, and the applicant is more than a mere customer. The agent is, or should be, the expert adviser of the man who wants insurance. And the applicant may very properly be called the agent's client.

It is the province of the agent to aid his client in securing membership in an association maintained for the mutual protection of its members. Then, the premiums which his client will be required to pay from year to year after he becomes a member, will be, so-to-speak, his annual dues.

Another point: as soon as a purchaser has paid for his pound of tea the transaction is at an end. But a policy is a *contract* —an agreement between two parties, the company and the policyholder—and this contract may extend over a long period of years. Consequently, the policyholder will have a continuing interest in the company. He will suffer if the company is injured, and will be benefited if the company prospers.

> The benefits of life insurance should be enjoyed by the great masses of the country—the men of small means. I thoroughly believe in life insurance.
>
> *William McKinley.*

## 45. Why a corporation

It is true that this association is given corporate form. But that is strictly in the interests of its members:

1. Because it places the organization under rigid insurance laws, and under vigilant government supervision.

2. Because it gives permanence to the organization, so that it shall not depend on the life of an individual, or on any series of lives, but may be maintained in perpetuity.

3. Because the association, instead of being left to inexperienced laymen, is thus placed under the management of expert officials, who are charged with the responsibility of conducting its affairs with efficiency and economy, on a strictly business basis, for the advantage of its members who contribute the money with which it is sustained, and without whom it would be but an empty name.

Another advantage of such a corporation is that the man who wants insurance is not forced to get up an association of his own. He finds a company ready made, from which he can obtain insurance of any kind for any desired amount. This is possible because the company, if it has got beyond the experimental stage, already has a large body of policyholders of all classes and ages. And although the applicant comes as an individual he immediately becomes a member of a large body of policyholders of his own class. Thus he does not interfere with the smooth working of the Law of Average so essential to the successful operation of every insurance organization.

## 46. Description of the insurance company

The insurance company has its headquarters at some central point, where its business, separated into departments, is conducted by a staff of officers and clerks. Thus the assets are invested and guarded in the Financial Department; premiums are computed, reserves are calculated, and risks are measured in the Actuary's Department; agents are appointed and directed in the Agency Department; applications for in-

surance are passed upon in the Medical Department; accounts are kept, classified and checked in the Auditor's Department, etc., etc.

But to understand the company as a whole, its Home Office must be regarded as simply a part of a great organization; just as the heart of a man is only a part of his body. We must note that the company has branches all over the country, presided over by field commanders usually called "general agents" or "managers," assisted in each case by a staff of field workers called "soliciting agents."

## XXII. HOW THE BUSINESS IS CONDUCTED

### 47. The agent

Any man may go to the office of a company for such insurance as he may want, but as the price he must pay will be the same whether application is made directly or through an intermediary, he usually delays action until some agent shows him that he needs insurance, indicates how he can obtain it, and saves him all trouble and annoyances in getting it.

### 48. The application

In such a case the agent will produce a printed *blank* called the "Application," and when the spaces in this blank have been filled in with the applicant's name, age,* the premium for the kind and amount of insurance desired, and other necessary particulars, the Applicant signs his name at the bottom, and the agent witnesses his signature.

Then the applicant must have an interview with some physician authorized by the company to make examinations for it.

Then the Application and the Medical Examiner's Report will go to the company, and if the Applicant is deemed a

*The age is determined by the *nearest* birthday. See § 105.

satisfactory "risk," the policy (i. e., the contract desired, of which there is a *printed form* simply needing to have the details of the particular case filled in) will be "written" and sent to the agent to be "delivered" to the Applicant in return for the first premium. Thereupon the Applicant becomes the policy-holder (or the Insured)*.

## XXIII. INSURANCE IN COMMON USE

The companies issue many kinds of insurance to meet a great variety of tastes and needs; but the bulk of their business is done on three standard forms, the *Ordinary Life*, the *Limited Payment Life*, and the *Endowment*.

ORDINARY LIFE POLICY

### 49. Ordinary Life Form

This contract provides that, in consideration of a certain annual premium, which must be paid as long as the Insured lives, the company will pay to the Beneficiary named in the policy the amount of insurance agreed upon, on receipt of due proof of the death of the Insured.

> The Ordinary Life Policy grants the *maximum* amount of *permanent* protection at the *minimum* annual rate. That does not necessarily mean that the *aggregate* will be less in the long run than the aggregate paid on a policy issued on some other form. It simply means that the rate *per annum* will be less.

### 50. Refunds

Usually this contract provides for annual REFUNDS, beginning at the end of the first or second year, and continuing until the maturity of the contract.

*If the Applicant is willing to pay the premium when he signs the Application, he can thus protect himself against the dangers of delay; for, in that case, if the Application is approved, the insurance will go into effect immediately.

## 51. Agent's duties

Some people have the impression that the agent has nothing to do but to write applications and deliver policies. This is a very inadequate conception of his duties. It is true that he is not a party to the contract between the company and the policyholder, but he brings the two parties to the contract together; stands ready to render valuable services to the policyholder as long as the contract remains in force, and will do all he can to facilitate the prompt settlement of the policy as soon as it matures. In this connection special attention is called to the supplementary chapter on the Insurance Salesman. (§ 303)

## 52. Renewal premiums

Twelve months after the register date of the policy a second premium falls due.* All premiums after the first are called "renewal premiums."

If the second premium is duly paid the insurance will be continued for a second year. If it is not paid, the policy will lapse and the insurance will be forfeited. But the policy may be restored if the policyholder continues to be a satisfactory risk and is willing to pay the overdue premium with interest.

## 53. Premium notice

Before each renewal premium falls due, the company mails to the Insured a "notice" that on such and such a date the premium will be due, in order that he shall not overlook his obligation to pay it. Formerly, such notices were sent voluntarily. Now it is one of the provisions of the Insurance Law of each State.

*We are dealing with a contract under which premiums are payable annually. The method of procedure is slightly modified when premiums are payable in semi-annual or quarterly instalments.

## 54. Grace

Formerly it was necessary to pay the premium on or before the date specified in the policy. Now it is customary to allow a month's grace in the payment of each premium, subject to a moderate interest charge. Usually, the company sends, voluntarily, a second reminder before this grace expires if the premium has not been paid. And if the agent does his full duty he will do what he can to facilitate the maintenance of the policy, or its restoration in the event of lapse.

## 55. Extension

If a policyholder finds that he will be unable to pay his premium at the expiration of this grace, the company, on written application filed in advance, may be willing to grant an "extension," under which the policy will be kept in force, subject to the payment of the premium with interest at the end of a further period of moderate duration.

## 56. Dividend notice

If the contract is an annual dividend policy, and if the first dividend is payable at the end of the first year, a notice of its amount and the different ways in which it can be utilized is sent by the company to the policyholder with his Premium Notice. A similar notice is sent annually thereafter.

## 57. Surrender value

If the premium falling due at the end of the second year is not paid, the policy will lapse and be forfeited. But at the end of the third year the Insured will be entitled to a "surrender value," either in cash, paid-up life insurance, or extended term insurance.*

*The usages of different companies vary to some extent, but the rules here stated are those in general use.

As the age of the policy increases, its surrender value increases, as indicated in a Table embodied in the contract.

In the earlier years the cash surrender value is usually the reserve on the policy less a moderate surrender charge. Later on the entire reserve may be allowed.

The paid-up value is the amount of insurance which the cash value used as a single premium will purchase.

When the third method of adjustment is selected, the policy is continued for its full amount for a designated period, at the end of which the insurance becomes extinct.

## 58. Policy loan

After a policy has been in force for three years or longer, if the Insured is financially embarrassed, instead of surrendering the contract, he can usually borrow, at a fair rate of interest, a sum not in excess of the policy's cash surrender value at the date of the transaction.

## 59. Caution regarding surrender values and loans

One of the first duties of the company, and of the agent, is to explain to policyholders that insurance contracts cannot be abandoned without sacrifice, and that while policy loans are safe and remunerative as far as the company is concerned, no man, unless driven by absolute necessity, should mortgage his insurance.

It has often been stated that a life insurane company *ought* to be the safest of business organizations because it assumes the responsibility of guarding the savings of the people, and protecting widows and orphans.

It *is* the safest of business organizations because its obligations are not affected by the fluctuations of the money market, but mature in accordance with the Law of Mortality, which works with the same regularity and deliberation during periods of financial disturbance as at other times. The fact has been emphasized, moreover, that in times of panic there can be no devastating "run" upon a life insurance company, as in the

case of a bank or trust company. While all this is true, it is nevertheless a fact that the large surrender values and liberal loans offered under modern life insurance contracts give policyholders the opportunity of making heavier demands upon the companies than formerly. Hence the insuring public will do well to recognize the indirect, as well as the direct, advantage of holding fast to their insurance. In case of necessity, a surrender value or a policy loan may be of advantage to the individual policyholder. But the members of a company who wish to consider their highest interests as a body, will see the wisdom of seeking to check the tendency among heedless people to sell or mortgage their insurance.

In this connection it may not be amiss to refer to a class of insurance agents—most of whom have been driven out of the business, but a few of whom remain. They are called "twisters" because they advise people to exchange old policies in one company for new insurance in another company. No policy issued by a solvent company on which any premiums have been paid, can be abandoned for new insurance without sacrifice. Hence, any agent who recommends such a transaction disregards the true interests of his client in order to secure some remuneration for placing the new insurance.

There are only two cases in which it is advantageous to exchange old policies for new: (1) The man who has *temporary* insurance will do well to exchange it for *permanent* insurance. (2) When the insurance is in a company threatened with insolvency, the Insured should endeavor to secure its surrender value, and take new insurance in some stronger organization.

## 60. Maturity

As will be explained hereafter, certain policies mature during the lifetime of the Insured, while others do not mature until after the death of the Insured. In the former case, the company settles with the Insured direct, or the agent attends to

the details of the transaction without charge. In the latter case, the agent stands ready to relieve the Beneficiary of all annoyance in effecting a prompt settlement of the claim.

A series of blanks are furnished by the company, called "Proofs of Death," which must be filled up and executed by the claimant, the attending physician, and others. As soon as these documents, in complete form accompanied by the policy and a "legal release," reach the company, its check for the amount due is drawn, and forwarded, directly, or through the agent, to the Beneficiary.

Formerly death claims were not payable until thirty or sixty days after the receipt of these documents, but the modern practice is to pay the claim immediately upon the receipt of due proof of the death of the Insured.

## 61. Liberal provisions

As a rule the policy becomes incontestable after one year; and, under most modern contracts, when the Insured resides in a healthful region and his work is of a wholesome character there are no restrictions as to residence, travel or occupation.

LIMITED PAYMENT LIFE POLICY

## 62. Limited payment forms

As far as the Beneficiary is concerned, the *Limited Payment Life* contract is exactly like the *Ordinary Life* contract; for the insurance will not be paid until after the death of the Insured. The essential differences are in connection with premium payments.

There are five Limited Payment forms:

10 Payment Life Policy
15 " " "
20 " " "
25 " " "
30 " " "

On any one of these, as soon as the stipulated number of premiums has been paid, the contract becomes "paid-up," and the Insured can put it away in his safe, and it need not be touched again until it matures at his death.

The rate charged for a Limited Payment Life policy is higher than for a corresponding Ordinary Life policy. (The shorter the period within which premium payments are restricted, the higher the rate, and vice versa.)

It is the general impression that Limited Payment policies are "more expensive" than Ordinary Life policies. This is not necessarily the case. It is true that the *annual charge* is higher, but as the premiums cease after a certain period it is obvious that the *total outlay* will be less if life is prolonged than under the Ordinary Life form; for although each premium will be larger the number of premiums will be fewer. It will be seen from this that the intelligent man who selects the Ordinary Life form will do so, not because it will necessarily be cheaper, but simply because the rate *per annum*—the yearly disbursement—will be less of a strain on his annual income.

### PREMIUMS CHARGED FOR LIMITED PAYMENT INSURANCE

A higher charge is made under a Limited Payment contract than under an Ordinary Life contract because:

> All those who take Ordinary Life policies must pay premiums on them as long as they live, and computations based on a reliable mortality table indicate what the charge must be. But under Limited Payment contracts no payments are required after a certain period has elapsed. Consider, for example, a group of 20 Payment Life policies. The premiums charged must be the exact equivalent of those that would be charged on a similar group of Ordinary Life policies. This is necessary because in either case the same amount of insurance must be paid to the beneficiaries in each group. But the 20-Payment Life policies provide that *none* of the owners shall be required to pay *anything* after they have paid premiums for 20 years. Many of

these policyholders will live longer, but their policies will then have become "paid-up" and must thereafter be self-sustaining. Now, as the premiums paid by all these people are thus *concentrated within a limited period*, the share which each must pay during that period must obviously be larger than if the payments extended over the entire lifetime of each contributor.

ORIGIN OF ENDOWMENT INSURANCE

The *Endowment Policy* is a combination of two other contracts: the *Term Policy* and the *Pure Endowment*. These are unimportant forms in themselves, but when combined to form the Endowment *policy*, they have very great value.

In order that the Endowment Policy may be clearly understood, it will be necessary, first, to describe the Term Policy, then to describe the Pure Endowment, and then to show the effect of combining these two contracts so as to produce the Endowment Policy.

## 63. Term policy

Term Insurance is temporary insurance. For example, a Term policy for $1,000 can be issued to run for any desired period, such as 10 years. If the person whose life is insured dies before the end of that period, the company must pay $1,000. But if he is living at the end of the period the contract will expire—the insurance will be at an end, and the company will have nothing to pay.

The premium on a Term policy is small because the company's liability does not extend beyond the term agreed upon.

But the man needing temporary insurance, who can afford to pay for *permanent* insurance, will act wisely if he selects the latter kind; for such a policy also grants *temporary* protection but it does not *expire* at the end of a term of years. It becomes an *asset*—a policy which will necessarily mature and be *paid* some day.

The man who takes a Term policy thinking that he only needs temporary protection, may find at the end of the term that he has greater need for insurance than in the beginning, and yet he may by that time have become an impaired risk, and be unable to obtain insurance to replace the term policy which will then expire.

## 64. Pure endowment

The Pure Endowment is the converse of the Term policy. The contract runs for a given period of years. If the Insured dies before the end of that period the company will have nothing to pay, but if he is living when the period ends, the company must pay the amount of the Endowment.

Any company will issue a Pure Endowment, but it is not often applied for. It is chiefly utilized as one of the elements in the Endowment Policy.

## 65. A term policy and a pure endowment

Consider the case of a man 35 years old who invests in a 10-year Term policy for $1,000. (Annual premium $14.50).

Let us suppose that at the same time he invests in a 10-year Pure Endowment for $1,000. (Annual premium $93.20.)

If the man dies within ten years, the company will pay $1,000 under the Term contract, and the Pure Endowment will expire. On the other hand, if he outlives the period of ten years, the Term contract will expire and the company will pay $1,000 under the Pure Endowment.

Thus, under one contract or the other, $1,000 will certainly be paid, during, or at the end of, this ten year period.

But the man who wants protection of this kind is not compelled to enter into two separate transactions. The company combines them in one contract—an Endowment Policy—and for that one contract charges a man of 35, for $1,000 of insurance, $105.87, which is a little less than it would charge for the two contracts issued separately.

## 66. Endowment policy

We have seen that as far as the Beneficiary is concerned, all "life" policies are alike. Under no form of "life" policy is the insurance payable until after the death of the Insured.

The peculiarity of the Endowment Policy is that if the Insured is living at the end of a stipulated term of years, called the "Endowment Period," the policy will mature, and the money then due will be paid to the Beneficiary (usually the Insured *himself*). Such a policy, however, is like a "life" policy in this respect: if the Insured dies before the expiration of the Endowment Period, the insurance will be paid immediately, just as if the policy had been issued as a "life" contract.

The charges for Endowment insurance are higher than for "life" policies, because the premiums are limited to a stipulated period of years, and because the insurance money will be paid to the Insured *himself* if he is living at the end of the Endowment Period, whereas if the contract were on a "life" form the money would not be payable until after his death, which might not occur for many years thereafter.*

Endowment insurance is attractive to those who wish not only the protection of insurance, but who wish to lay something by for their own advantage in after life.

Those who wish *insurance* protection *exclusively,* prefer Ordinary Life or Limited Payment Life insurance because the rates are lower. There is, moreover, a danger connected with Endowment insurance if taken for the protection of the family or estate, which is avoided if a "life" policy is taken. It is this: when the insurance money is paid by the company at the maturity of the Endowment contract, there is the danger that

*An Endowment Policy may be drawn so as to run for either 5, 10, 15, 20, 25 or 30 years, or longer.

it will be spent or embarked in some business venture, and that the protection of the insurance will thus be lost to the family.

It is true that if the Insured is still in good health he can convert the proceeds of the Endowment into paid-up "life" insurance for an increased amount, or he can take a new policy. But he cannot do either if he has become an impaired risk. And the rate for a new policy would be much higher than for the original insurance, on account of the increase in his age.

## XXIV. INCOME INSURANCE

### 67. Life income policy

Many women are prudent and thrifty, but few have had experience in the difficult and intricate business of investing capital. And few women clearly appreciate the difference between *principal* and *interest*—the distinction between *capital* and the *income* produced by capital.

All this being so, it is not strange that when a widow receives a large amount of money from an insurance company, she may be tempted to spend it instead of investing it, or may invest it injudiciously.

It is an axiom among financial people, moreover, that it is far easier to make money than to keep it—that anyone can waste it, but that few can guard and invest it safely. This is true of men as well as of women.

As the first aim of life insurance is to protect women and children, it is fortunate that the companies are now able to offer a form of policy under which the insurance money, instead of being paid in a single sum, is disbursed by the company in the form of *an annual income for life* (payable if desired in monthly instalments.) Thus the company in which the husband has shown his confidence by depositing his savings while still alive, becomes his financial representative after

his death—when its services will be even more valuable than when he was alive.

One admirable feature of this kind of insurance is that, in general practice, the income is *guaranteed for twenty years.*

EXAMPLE

A husband (aged 35) can obtain an Income Policy on the Ordinary Life form, in favor of his wife (aged 30) for an annual premium of $580.80, which at his death will pay his widow an annual income of $1,200. If she dies after receiving the income for a time, *it will not be cut off*, but will be continued until payments have been made for twenty years. Here the object is to support the children until they reach an age when, presumably, they will be able to take care of themselves. If, on the other hand, the widow lives beyond the 20 year period, the income will be continued as an annuity as long thereafter as she lives.

The Life Income Policy is written on the Ordinary Life, Limited Payment Life, and Endowment forms.

Under the Endowment form two lives may be protected.

EXAMPLE

If a husband takes such a policy in favor of his wife, and if both are living at the end of the policy's Endowment Period, the income will begin then, and continue during the lifetime of the one who lives longest. If, on the other hand, the husband should die before the expiration of the Endowment period, the income will begin at once and be paid to the widow for 20 years, or longer if she lives longer.

> Get a policy, and then hold on to it. It means self-respect, it means that nobody will have to put something in a hat for you or your dependent ones if you s h o u l d be snatched away from them.
>
> *Grover Cleveland.*

# XXV. SURVIVORSHIP POLICY

## 68. Survivorship annuity

The name of this contract is unfortunate. It is, strictly speaking, an Ordinary Life *policy* and not an *annuity*. The only excuse for its name is that upon the death of the Insured, when the policy matures, the insurance will be paid to the Beneficiary, not in one sum, but in the form of an annuity for life. (Annuities are described in § 78.)

The Survivorship Annuity is really a life income policy, but it differs materially from the policy bearing that name, described in § 67. The difference can be most clearly shown by considering an example.

EXAMPLE

A young man (aged 40) supports his wife (aged 30) and also his mother (aged 60.)

For his wife he takes a Life Income Policy on the Ordinary Life form, at a premium of $687.10. This will give her, after his death, an income of $100 a month.

For his mother he takes a Survivorship Annuity because her needs are not those of his wife. In her case $50 a month will suffice as no children have to be provided for, and because his sole object is to support his mother as *long as she lives*. Hence a cheaper contract is desirable, and the premium on a Survivorship Annuity to provide an income of $50 a month, would be only $107.70. [A Life Income Policy, providing an income of $50 a month for a person 60 years old would cost $304.70.] Under this contract, if the mother dies, the policy will thereupon *expire*. This will do no harm because there will be no further need for the protection; and this enables the company to charge less than for a similar Income Policy.

Note, on the other hand, that if the wife should die, the income on her policy will be continued until it has been paid for twenty years, thus providing for the needs of her children until they reach a self-supporting age.

# RATES CHARGED FOR A LIFE INCOME POLICY COMPARED WITH THOSE CHARGED FOR A SURVIVORSHIP ANNUITY

| RATES COMPARED For a Yearly Income of $100 | | | |
|---|---|---|---|
| Age of Insured | Age of Beneficiary | Income Policy (Ordinary Life Form) | Survivorship Annuity (An Ordinary Life Policy) |
| | | Annual Premium | Annual Premium |
| 25 | 60 | $33.10 | $13.09 |
| 25 | 10 | 41.86 | 36.38 |
| 35 | 30 | 48.40 | 35.05 |
| 40 | 60 | 50.78 | 17.95 |
| 40 | 35 | 55.38 | 38.45 |
| 40 | 10 | 67.20 | 62.85 |
| 60 | 60 | 119.76 | 51.31 |
| 60 | 10 | 173.88 | 160.62 |

The willingness to take risks is in the great merchant or capitalist a virtue. It is to him what courage is to a soldier or a statesman, or imagination to a poet. But the willingness to take risks is in the wage earner or the salary earner a weakness, or in great excess, a vice. The contrary of the vice of gambling is in the virtue of thrift and the system of life insurance has given the thrifty man an opportunity of practicing his virtue.

*David Lloyd-George.*

# THIRD PART

## INDUSTRIAL COMPANIES

Of all business organizations a life insurance company based on scientific principles and prudently conducted is the safest. This is because its obligations mature in accordance with the Law of Mortality which is uniform and deliberate in its workings, and does not vary with the fluctuations of the money market, or the rise and fall of stocks and bonds.

# XXVI. INDUSTRIAL INSURANCE

## 69. Industrial companies

This kind of insurance is so named because it is designed for the industrial classes—people who lack banking facilities and cannot afford to make their payments annually, or even in quarterly instalments.

This branch of the business is transacted by companies organized expressly for the purpose of issuing this kind of insurance, or by companies having an industrial department. The industrial business of several of the former companies is very large. Such companies as a rule do an "ordinary" business also.

The industrial companies are "regular" organizations, transacting their business on sound principles, but under a special system adapted to the character of the service rendered to their policyholders.

Usually the policies are for small amounts, and the premiums are paid from week to week to agents who call at the homes of the policyholders to collect them. The result of this system is that the premiums charged for industrial insurance are on a special scale, which differs from the rates for "ordinary" insurance quoted in this book.

The industrial companies accomplish a great public service, for they reach multitudes who need protection but who must content themselves with policies for smaller amounts than the ordinary companies are willing to issue.

**It is not necessary to enlarge upon this branch of the business; for the explanations in this book apply alike to ordinary and industrial institutions.**

## LIFE INSURANCE IS IN CERTAIN RESPECTS UNIQUE.

Other kinds of insurance provide for losses that *may* be sustained. Life insurance provides for an *inevitable* loss.

The premiums on other kinds of insurance are an *expense.* The premiums on a life policy are payments on account of an *asset;* for at some time the policy *must* mature and be paid.

Other kinds of insurance are *expedient:* life insurance is *essential.*

A building may never burn, a ship may never sink, but all men must die.

# FOURTH PART

## OTHER KINDS OF INSURANCE

THE POLICY FORMS ALREADY DESCRIBED ARE AS FOLLOWS:


| | |
|---|---|
| Ordinary Life Policy | § 49 |
| Limited Payment Life | § 62 |
| Term Policy | § 63 |
| Pure Endowment | § 64 |
| Endowment Policy | § 66 |
| Life Income Policy | § 67 |
| Survivorship Annuity | § 68 |

# XXVII. OTHER FORMS AND PLANS

*Arranged alphabetically*

## 70. Business insurance

Partners often insure their lives to protect their business interests.

A corporation often insures the life of one or more of its officers to offset the injury which would result if death should deprive the organization of experience, expert skill. or capital.

Creditors often insure the lives of debtors.

Many persons take policies to protect mortgaged real estate, or to safeguard their notes or collateral loans.

There are a great variety of ways in which the financial interests of individuals, business firms, and corporations can be safeguarded by means of life insurance, and such transactions are placed under the general classification of "business insurance."

## 71. Child's endowment

This is a special form of Pure Endowment. It is usually taken by a father to provide for the education of a son, or to start him in business; or to furnish a wedding portion for a daughter.

It may be drawn so as to mature at any given age (usually at either 18, 21, or 25).

The annual premium on a Child's Endowment of the ordinary kind is very moderate, because the company will have nothing to pay if the child dies prior to the maturity of the contract.

But if the father is willing to pay a somewhat higher premium, the contract can be issued on what is known as the "return premium" plan. (See § 75.)

EXAMPLE

For an annual premium of $36.79 a father can secure for a daughter 1 year old, an Endowment of $1,000 payable when she reaches the age of 21, the company having nothing to pay in the event of the child's prior death.

But, if the father is willing to pay a higher rate ($40.98) the company will, in the event of the death of the daughter before reaching the age of 21, return the sum of the premiums that have been paid.

If, for example, the daughter should die after the tenth premium has been paid, the company would return the sum of the payments made, namely $409.80. Or, if she should die after all 20 premiums had been paid, but before the completion of the 20th year, the return would be $819.60.

## 72. Group insurance

This is the name given to a plan under which the employer of a large force of workers gives the protection of life insurance to those under him.

In each case, the risk of insuring the entire group is accepted subject to a careful inspection of the group as a whole, in place of individual medical examinations.

A blanket policy covering the entire group is issued, and a monthly premium (on the "yearly renewable term" basis*) is paid by the employer

The insurance in each case may be for one year's pay, or for any other moderate sum.

Manufacturing companies, railroads, express companies, department stores, distributing companies, banks, trust companies, and many other employers of labor are now availing themselves of this plan for getting closer to their workers, and rewarding them for steadfast and loyal service. In this way multitudes of people who might otherwise know little or nothing about insurance are brought under its protecting care.

*This is the pure Natural Premium increased by a small "loading" for expenses and contingencies.

And in many instances these employes learn the wisdom of supplementing the insurance furnished by their employers by investing their own money in individual policies.

## 73. Instalment policy

The Income Policy described in § 67, provides for a series of payments to the Beneficiary during a period of 20 years, and the same payments as an *annuity* thereafter if the Beneficiary survives. The Instalment Policy is a similar contract but with the following important differences:

1. The policy is paid in *any* desired number of equal annual instalments, from 5 to 50.

The sum of these instalments will always be a larger amount than the face of an equivalent policy payable in one sum. This is because the instalments will be increased by interest.

2. There is no annuity attachment to this contract, the length of the *beneficiary's* life having nothing to do with the transaction. The number of instalments agreed upon must be paid, and as soon as the last has been paid the transaction is at an end.

EXAMPLE

A policy yielding $1,000 if paid in one sum may be paid in

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 5 | annual | instalments | of | $212 | each—Total | $1,060. | or in |
| 30 | " | " | " | 49.53 | " " | 1,485.90, | or in |
| 50 | " | " | " | 37.73 | " " | 1,886.50. | |

The *fewer* the instalments the larger each payment will be, and the smaller the aggregate will be.

The *greater the number of instalments* the smaller each payment will be and the larger the aggregate will be.

The aggregate will be larger when the instalments are many because more interest will be added if the payments are spread over a long period than if restricted to a short period.

The companies are always ready to settle a policy on the instalment basis even if the contract provides for the payment of the insurance in one sum.

## 74. Joint life policy

Two lives may be insured under one contract. In such a case the ages of both persons must be considered so as to determine the correct premium to charge.

If on a "life" form, the insurance will be paid when the first death occurs. If an Endowment policy, it will be paid at the end of the Endowment Period, or on the prior death of either one of the two persons.

Such a policy is usually taken by a husband and wife, or by partners in business.

Contracts of this kind may be issued on the lives of more than two persons, but such transactions are unusual.

It is often found that, instead of a Joint-Life policy on the lives of two or more persons, separate policies (one on each life) are preferable.

## 75. Return premium policy

If the Insured is willing to pay a slightly increased rate, his policy, if on one of the standard forms, can be drawn in such a way that in the event of his death within a stipulated period, the company *will return to the Beneficiary all the premiums that have been paid*, in addition to the face of the policy.

But how can a company afford to return all the money it has received for carrying the risk? The answer is that it is possible because the return is made only to the few who die out of a large body of people most of whom will survive. Here again the Law of Average comes into play. The company agrees to make this return *only in the cases where death intervenes*, while *all* the policyholders in the group, including those who survive, must contribute to the fund from which these payments are made. In other words, each policyholder pays a small additional premium for additional insurance, the amount of which will correspond with the aggregate paid in premiums. Thus the policyholder "insures" his payments.

# XXVIII. AN EXPERIMENT THAT FAILED

(Illustrating the fact that a company even if soundly based cannot hope for permanent success if any of the usages which have sapped the strength of so-called "assessment" organizations, are adopted.)

## 76. "Natural" plan of charging unsuccessful

Some forty years ago an actuary of high scientific attainments organized a company to transact the insurance business on a plan based on the "natural" method of charging.

That company still exists, but it could not have lasted if it had not changed its method of charging to the "level premium" basis.

The reason for this is not because of any flaw in the "natural" method. *Theoretically* that method is absolutely sound. This experiment failed because of *practical* difficulties.

The founder of the company undoubtedly reasoned as follows:

> "The average man during the earlier years of his business career has a small income and no capital. Nevertheless, he marries and raises a family. Obviously, his need for insurance is pressing. But he cannot afford an adequate amount unless he can obtain it at a very moderate rate. Hence, as the 'natural' premium is very small at the younger ages, that is the basis on which he ought to insure. It is true that the premium will increase, but presumably his earnings will increase also, and he will then be able to pay a larger premium."

All this is absolutely sound in theory, and ought to work in practice; but experience has proven that it never has worked, and in all probability never will.

The investor in insurance of this kind finds that the charge made in the beginning is very moderate. This will delight

him, and for a time the slight increase in his premium will not disturb him. But as he grows older, the rate will increase more rapidly, and it is probable that sooner or later (if he retains his health) he will cast the burden off. If he does so, others similarly situated will follow his example.

It is not to be expected that the rats on shore will board a sinking vessel from which the ship-rats are scurrying. And a company from which members are retiring in large numbers cannot hope to induce many new members to come in. Thus, such a company will lose a large proportion of its healthy members and will run the risk of being ultimately swamped by the preponderance of members whose health has become impaired.

Such difficulties are avoided when level premiums are charged. In the first place, the policyholder learns that he will suffer some loss if he retires. In the second place, as there can never be any increase in his premium, there will be no temptation on that score to withdraw.

It may seem inappropriate in an elementary treatise such as this to go into these details, but from a practical point of view this is the most important subject that the man who wants to understand life insurance and judge of its merits can study. Thus he can discover how to distinguish between "regular" insurance and the protection offered by "fraternal" and "assessment" societies. The latter organizations were, in the beginning, based for the most part, on an inaccurate and unscientific application of the "natural" method of charging, or some modification of that method. And if a company properly conducted on the natural basis (such as the one referred to above) can achieve permanent success only by changing its practice, it is obvious that an organization conducted in an imperfect manner on that basis cannot hope for lasting prosperity.

MANAGEMENT IS THE KEY-STONE OF THE ARCH.—*O. W. Chapman*

No life insurance company founded on unscientific principles has ever achieved permanent success.

Every company based on scientific principles whose business has been conducted with prudence and efficiency, has prospered.

Mismanagement will wreck any business organization, no matter how solid its foundations.

Consequently the man who wishes adequate protection must select a company which is (a) based on sound principles, and (b) conducted with integrity, economy and efficiency.

# XXIX. FRATERNAL AND ASSESSMENT INSURANCE

## 77. Fraternal and assessment societies

The kind of insurance offered by such organizations as "fraternal" and "assessment" societies may be described as the child of honest and deserving parents.* It sprang from praiseworthy measures taken by social or benevolent organizations to give the protection of insurance to their members at moderate rates. But those who devised these plans were not as a rule thoroughly familiar with the scientific principles on which all sound life insurance rests.

They saw that during the earlier years of such an organization, with most of its members still young, very moderate charges would suffice to pay maturing death claims. So they jumped to the conclusion that what could be done in the beginning could be done all the way through. But of such organizations those that have lasted for any length of time have sooner or later seen the expediency of increasing their charges. This has placed them in an embarrassing dilemma. When they have failed to increase their charges, their resources have been insufficient to meet their obligations. When they have raised their rates, healthy members have become dissatisfied and have retired, leaving an abnormal number of impaired risks, thus making the death rate excessive. This explains the fact that hundreds of these assessment societies, after flourishing for a time, have ceased to exist.

The only way to give lasting strength to such an organization is to reorganize it on a sound foundation by adopting adequate premium rates based on a reliable table of mortality and providing for the husbanding of the reserves produced by

*Assessment companies have sometimes been called "co-operative" societies, but as all insurance is based on co-operation, it is unfortunate that a defective kind of insurance should ever have been given so good a name.

such adequate charges. But if this should be done the organization would become in effect a "regular" or "legal reserve" company. But it would still be at a disadvantage, for it would continue to be burdened with a large number of old policyholders who up to that time had been charged inadequate rates.

These criticisms relate chiefly to assessment organizations, for the fraternal societies have introduced reforms which most of the assessment companies still hesitate to adopt.

Such stability as these organizations have enjoyed has been due, for the most part, to incidental advantages such as the following:

1. Although the charges have been moderate in the beginning, the contract has always contained a clause authorizing future increases. And usually societies that have lasted for any length of time have been forced to take advantage of this clause authorizing an increase in premium charges.

2. It has been usual to draw these contracts in such a way that some portion of the claim may be withheld if the payment of the whole would result in embarrassment. In such a case the premium charge may have been very moderate as compared with the amount of insurance *offered*, but very high as compared with the amount actually *paid*. When a "regular" company issues a policy offering insurance for a certain amount, that amount must be paid in full.

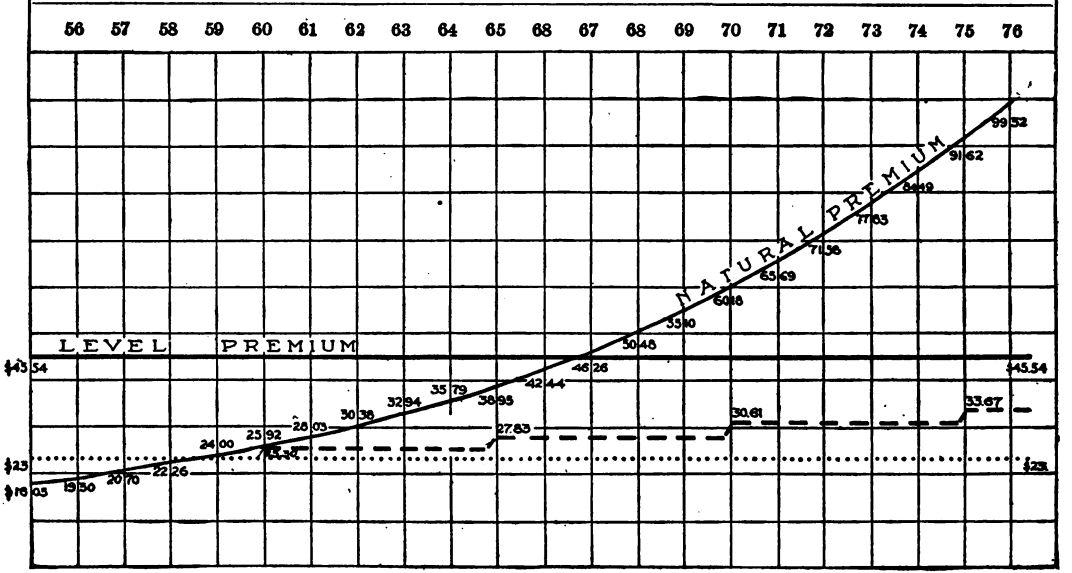
3. These societies are frequently social organizations of which the insurance feature is only of incidental importance.

4. On the plea that these societies are benevolent organizations, they have escaped many of the rigid legal requirements which safeguard the operations of the regular companies.

Organizations of this kind have usually failed in the long run because they have tried to grant insurance protection at less than cost. The futility of thus attempting to do the impossible is illustrated by the following diagram:

# DIAGRAM

The "pure" Level rate ($45.54) and the "pure" Natural rate (beginning at $18.03) compared with a hypothetical "assessment" rate (beginning at $23.)




Based on the American Experience Table of Mortality with 3% interest.

## EXPLANATION OF DIAGRAM

In the foregoing diagram, the dotted line is intended to represent the premium on a policy issued by an assessment society at an assumed rate of $23.

Please note carefully that this rate is an *arbitrary assumption*, and does not indicate the actual premium which would be charged by one of these societies. This rate has been selected simply to illustrate the fallacy of that plan of insurance.

That plan is based on the knowledge that insurance can be granted during the earlier years of each policy at a low rate. But the diagram indicates that while a premium of $23 would be adequate for a time, it demonstrates the fact that it would become altogether inadequate later on. If a premium of $18.03 had been selected, the diagram would prove the inadequacy of that rate after the first year. But starting with $23, that rate is seen to be clearly adequate for several years. Later on it becomes obviously inadequate.

Notwithstanding the fact that many of these societies have led the policyholder to believe that his premium would not be increased, it has been usual to insert in his policy a clause authorizing an increase in the rate later on, if necessary. Now, let us see if a policy beginning with a premium of $23 could be sustained *if the rate should be increased from time to time.* In the diagram the dashes indicate an increase of 10% at the end of the first five years, making the premium $25.30. Adding another 10% to this rate at the end of the second five years, the premium would be $27.83. For the next period the rate would be $30.61, and for the next $33.67. The inadequacy of this is also obvious.

If 20% should be added at the end of every five years, the increasing rate would be as follows: $27.60; $33.12; $39.74; $47.69. And even this rate thus increased would be inadequate, for although during the last period the charge would be a trifle more than sufficient *for that period*, the previous deficiencies would far outweigh that temporary advantage.

In short this diagram demonstrates the fact that the only adequate *level* rate is $45.54; and that the only adequate *increasing* rate is one beginning at $18.03 and advancing steadily from year to year, or a rate increasing at longer intervals but *equivalent* to this annually increasing rate.

There can be no doubt about this because the level premium and the other premiums shown in the diagram are the *pure* rates; and illustrate the *actual cost* to the company in each case. In each case the rate is based on the same mortality table, with the same allowance for interest (3%). If the *gross* premium had been used, the advocates of fraternal

and assessment insurance might contend that the higher charges of the regular companies are due to higher expenses, and thus an element of doubt would be introduced into the problem. Consequently, in this comparison expenses are eliminated, and the different *pure* premiums (all on precisely the same basis) are employed.

Most of the foregoing criticisms relate to methods that have been followed in the *past.* Some of these societies have already adopted adequate rates and are accumulating more or less adequate reserves, and it is to be hoped that the lessons taught by experience, and wholesome restrictions in amended Insurance Laws, will result in reforms and improvements which will enable all these organizations, especially the fraternal societies, to offer absolutely sound life insurance. If so, they can cover a broad field, and ought to be able to supply the needs of large masses of people who have not as yet been fully reached by the so-called "regular" companies.

## EXTRA HAZARDOUS RISKS ARE DEALT WITH IN §173.

# FIFTH PART

## ANNUITIES

## DEFINITIONS

The person on whose life an Annuity depends is the *Annuitant.*

The amount which he pays for the Annuity (the purchase price) is the *Consideration for the Annuity.*

The agreement under which the transaction is carried out is the *Annuity Contract* or *Annuity Policy.*

The payments made by the company to the Annuitant (i. e., the income from the investment) are the *Annuity Payments,* or simply the *Annuities.*

# XXX. AN ANNUITY THE CONVERSE OF INSURANCE

## 78. Life annuity

Those who invest in Life Annuities are usually old men and women without dependents; who are not engaged in any remunerative calling, and who have some capital invested in ordinary securities which do not produce a sufficiently large income to supply their needs. Such a capital if re-invested in an Annuity will yield a much larger return.

EXAMPLE 1.

A woman 65 years of age, wholly dependent on a capital of $15,000, has invested this capital in railroad bonds yielding 4%. Her annual income is, therefore, only $600. But if she should convert these bonds into cash, and re-invest the money in a Life Annuity, it would yield an annual income *for life* of $1,400.70.*

EXAMPLE 2.

A man of the same age who invests $15,000 in a Life Annuity will receive an income a trifle larger than the above, namely $1,538.10.**

NO MEDICAL EXAMINATION

In an annuity transaction a medical examination is superfluous, because the early death of the Annuitant would not injure the company. A Life Annuity is the converse of a Life Policy. The longer the Annuitant lives the more the *company* must pay. The longer the policyholder lives the more *he* must pay.

*The highest rates now in common use are quoted here. Some companies charge a little less.

**Experience indicates that the women who buy annuities live a little longer on the average than the men who buy annuities. Hence the company in fixing its charges allows a slight advantage to male annuitants.

## 79. Income from annuities

In the case of a policy, the younger the age the larger will be the amount of insurance which a given premium will purchase. In the case of an Annuity, the younger the age the smaller will be the annuity which a given amount of capital will buy.

The following are examples of income, at different ages, produced by a Life Annuity at the rates quoted in this book:

| FOR MEN | | FOR WOMEN | |
|---|---|---|---|
| At age 60 | over 8½% | At age 60 | nearly 8% |
| " " 65 | about 10¼% | " " 65 | " 9½% |
| " " 70 | nearly 12½% | " " 70 | " 11½% |
| " " 75 | " 15½% | " " 75 | " 13¾% |

## 80. Life annuity rates

Correct annuity charges are derived from a mortality table (not necessarily the table used in computing premiums on policies) *less* an allowance for interest, and *plus* a moderate loading to cover expenses and contingencies. In this connection see the APPENDIX (§ 308).

> Every mortality table, in giving the number of persons who will die each year, necessarily shows also the number who will be alive at the end of each year. And the problem in the case of Annuities is to determine how long Annuitants will live.

There are two ways of stating the charge for an Annuity: (a) The price which must be paid for an income of a round amount, such as $100. (b) The amount of the Annuity payments which a round amount of capital, such as $1,000, will produce.

An Annuity is usually bought by the man or woman on whose life the Annuity is to depend, but it may be bought by someone else, such as a son for the support of a parent, a brother for a sister, an employer for a faithful clerk or old family servant, etc.

## CONDENSED TABLE OF GROSS CHARGES FOR LIFE ANNUITIES (MALES)

*Based on the British Offices' Experience on Annuitants, with 3% interest*

| Price for $100 Annuity | | | Age at last birthday | Annuity which $1000 will buy | | |
|---|---|---|---|---|---|---|
| $100 each year | $50 each half-year | $25 each quarter | | Annual Annuity Payment | Semi-annual Payment | Quarterly Payment. |
| $2,326.20 | $2,353.20 | $2,366.70 | **21** | $42.98 | $21.24 | $10.56 |
| 2,129.00 | 2,156.00 | 2,169.50 | **30** | 46.97 | 23.19 | 11.52 |
| 1,852.70 | 1,879.70 | 1,893.20 | **40** | 53.97 | 26.59 | 13.20 |
| 1,521.60 | 1,548.60 | 1,562.10 | **50** | 65.72 | 32.28 | 16.00 |
| 1,157.70 | 1,184.70 | 1,198.20 | **60** | 86.37 | 42.20 | 20.86 |
| 801.10 | 828.10 | 841.60 | **70** | 124.82 | 60.37 | 29.70 |
| 546.80 | 573.80 | 587.30 | **80** | 182.88 | 87.13 | 42.56 |
| 489.50 | 516.50 | 530.00 | **85** | 204.29 | 96.80 | 47.16 |

## CONDENSED TABLE OF GROSS CHARGES FOR LIFE ANNUITIES (FEMALES)

*Based on the British Offices' Experience on Annuitants, with 3% interest*

| Price for $100 Annuity | | | Age at last birthday | Annuity which $1000 will buy | | |
|---|---|---|---|---|---|---|
| $100 each year | $50 each half-year | $25 each quarter | | Annual Annuity Payment | Semi-Annual Payment | Quarterly Payment. |
| $2,328.40 | $2,355.40 | $2,368.90 | **21** | $42.94 | $21.22 | $10.55 |
| 2,141.90 | 2,168.90 | 2,182.40 | **30** | 46.68 | 23.05 | 11.45 |
| 1,891.90 | 1,918.90 | 1,932.40 | **40** | 52.85 | 26.05 | 12.93 |
| 1,607.70 | 1,634.70 | 1,648.20 | **50** | 62.20 | 30.58 | 15.16 |
| 1,267.50 | 1,294.50 | 1,308.00 | **60** | 78.89 | 38.62 | 19.11 |
| 878.30 | 905.30 | 918.80 | **70** | 113.85 | 55.23 | 27.20 |
| 603.50 | 630.50 | 644.00 | **80** | 165.70 | 79.30 | 38.81 |
| 504.80 | 531.80 | 545.30 | **85** | 198.09 | 94.02 | 45.84 |

**SEE NOTE 4, PAGE 144**

## 81. Annuitants live long

Statistics prove that men and women who are supported by pensions or by Annuities live longer on the average than other people. There are two reasons for this, (1) Only those who expect to live are willing to invest in Annuities, (2) The people supported by Annuities are relieved of all worry and anxiety. This tends to prolong their lives.

The examining physician of a prominent life insurance company states this truth with humorous exaggeration, as follows:

"An annuity is the best elixir of life. It sometimes seems as if annuitants never die. We have lots on our books who top eighty, ninety, and even ninety-five years. The secret is that financial worry and fear of the poorhouse ages and kills off more people than all the deadly diseases combined. Release an old man by means of an annuity from all this worry and he throws off his years and walks erect, happy and fearlessly young."

One of the agents of another company, who has done a good business in placing annuities, says:

"Actuaries always look sad when you speak about annuities. They say annuitants never die. And they do not—not as often as other people. Our Actuary showed me a list the other day of living annuitants and their ages, and it looked like a record of the thermometer in Arizona during a hot spell."

## 82. Refund annuity

By increasing the charge, a Life Annuity can be issued on the same principle as a "return premium" policy. (See §75). In that case, on the death of the Annuitant, if the annuities returned by the company have been less in amount than the price paid, the difference will be returned in cash, or the annuities will be continued until they equal the purchase price. Thus the return may be more, but can never be less, than the sum invested.

# OTHER KINDS OF ANNUITIES

## 83. Two-life annuity

A Two-Life Annuity is based on the lives of two persons, and is payable as long as either survives. This form is advantageous for a man and wife who have no children, or whose children are settled in life.

EXAMPLE

A man aged 55 whose wife is 50 can, for $18,337, obtain an Annuity of this kind which will yield an income of $1,000, to continue until the death of the one who lives longest.

## 84. Annuity-due*

Usually a Life Annuity Contract is so drawn that the first payment of income to the Annuitant shall fall due at the *end* of the first year, and be payable annually thereafter.

In consideration of a slight increase in price the Annuity may be made payable in semi-annual or quarterly instalments.

In the case of an *Annuity-Due*, the first payment of income is made at the *beginning*, instead of at the end, of the first year (i. e. immediately upon the purchase of the Annuity). In other respects the Annuity-Due and the Life Annuity are alike.

Annuities of this kind are constantly employed in Life insurance computations, but are seldom desired by the purchasers of Annuities.

*Often called an *Immediate Annuity*, but the title "Annuity-Due" is better because an ordinary Life Annuity is in some quarters called an "Immediate Annuity."

## 85. Temporary annuity

A Life Annuity runs during the lifetime of the Annuitant. A Temporary Annuity runs for a stipulated term, and then expires.

EXAMPLE

A 10-year Temporary Annuity will expire after 10 annual payments have been made to the Annuitant, unless terminated by the death of the Annuitant before the expiration of that term.

## 86. Annuity-certain

This is like a temporary annuity except that it is payable during a stipulated term, *whether the Annuitant lives or dies.*

## 87. Perpetual annuity

This is like an Annuity-certain, except that the income is not cut off at the end of a stipulated period, but is supposed to continue in perpetuity.

## 88. Deferred annuity

Under an ordinary Life Annuity, as we have seen, the income begins at the *end* of the first year. Under an Annuity-Due the income begins at the *beginning* of the first year.

The income payable under a Deferred Annuity does not begin until an interval of years has elapsed.

EXAMPLE

A man of 30 can take a Deferred Annuity under which the income will begin at age 55. If he dies in the interim the company will have nothing to pay; but if he survives he will, on reaching age 55, receive an income much larger than would be the case under a Life Annuity.

The charge for a Deferred Annuity depends on the age of the Annuitant when the investment is made, and the length

of the period which will elapse before the income will begin.

Such an annuity can be paid for by depositing the entire purchase price in advance, or by paying annual premiums (as in the case of an insurance policy) from the date of purchase to the date on which the annuity will begin.

EXAMPLE

A man 35 years of age who is earning a good income and who wishes to lay something by from year to year during a period of 20 years, so as to retire from business at age 55 can get a very large return for his savings if he invests them in a Deferred Annuity. Thus if he should make an annual payment to the company of $429, for 20 years, the investment will yield an annual life income of $1,000, payable in semi-annual instalments of $500 each, the first payment to begin six months after he reaches age 55.

I am a profound believer in life insurance for all classes and conditions of men and women. Next to the duty of securing salvation in the world to come is the duty of men to secure life insurance in the world that is here and now. Next to a good hope for eternity is the comfort which comes to a man from knowing that he has made provision by life insurance for the support of his family in the event of his own death. To do so seems to me a religious obligation, an obligation often as binding upon women as upon men.

*Robert S. McArthur.*

## SERVICES RENDERED BY LIFE INSURANCE

Of all teachers of thrift, life insurance is the safest and best.

It not only provides a convenient plan for saving money, but it enables a man to resist the temptation to spend what he has saved.

It safeguards the savings of people of limited means.

It makes the safest and most economical provision for the support of widows and orphans.

It makes the safest and most economical provision for the declining years of business men and self-supporting women.

It is essential for the families of salaried and professional men whose income will be cut off at their death.

It is essential for those lacking capital who spend all their earnings to meet current expenses.

It gives a man time to accumulate capital if he lives, and provides that capital instantly if he happens to die.

It pays the current obligations of a man after his death, and provides money for the immediate needs of his family.

When payable in the form of a life income, it provides, without expense, after the death of the insured, a financial agent to safeguard the future of the beneficiary.

It drives worry and care from a man's mind. It increases his cheerfulness, and enhances his efficiency.

It strengthens a man's reputation for business judgment, efficiency, foresight and prudence.

Life insurance is in effect an "insured" savings bank account.

Life insurance safeguards business and financial transactions.

(Continued on Page 96.)

# SIXTH PART

## VALUE OF LIFE INSURANCE

## SERVICES RENDERED BY LIFE INSURANCE

(Continued from Page 94.)

Insurance money goes to the beneficiary without expense.

It enables a father to start a son on his business career, or to provide a marriage portion for his daughter.

The young man who takes a policy instantly creates a capital, which may form the nucleus of a substantial fortune.

The young man who insures, constrains himself to save, and establishes a fund for the protection of his future family, or for his own future comfort if he never marries.

Insurance protects the young man who has borrowed money to complete his education—if he dies. It gives him remunerative work, enabling him to pay his debt—if he lives.

The man who invests in insurance increases his self-reliance and strengthens his credit.

It provides ready money for the settlement of an estate, protecting it against shrinkage and loss.

If a man insures to protect his family, he safeguards his business. If he insures to safeguard his business, he protects his family.

It gives compensation for depreciation in the value of investments, or shrinkage in the income from investments.

It protects a home bought on the instalment plan.

It enables a man to borrow larger sums from his bank than he could obtain otherwise.

It is utilized by men of wealth to offset the inheritance tax.

It provides for the payment of collateral loans, thus freeing the collateral lodged to secure such loans.

(Continued on Page 110.)

The *uncertainty* of the life of the *individual* makes life insurance *expedient.*

The *certainty* of the life of a *multitude of individuals* makes it *possible* and *safe.*

## XXXI. DEVELOPMENT AND SCOPE OF LIFE INSURANCE

### 89. Development

Formerly the policies issued by the life insurance companies were rigidly restricted contracts. Many things were specified which the policyholder could not do, and many places were designated which he could not visit. Death claims were not paid until sixty or ninety days after the receipt of due proof of death, and there were cases where claims were contested or compromised on what would now be regarded as very trivial grounds.

All this has been changed. The insurance contract has been simplified and liberalized; collateral advantages have been added, and flexibility has been given to its provisions by permitting the Insured or the Beneficiary to select one of a variety of methods of settlement at the maturity of the policy.

The up-to-date policy becomes incontestable after one, or two, years; is paid at maturity without delay, and the beneficiary is given the benefit of the doubt in every doubtful case.

## 90. Scope of insurance

In the early days life insurance was utilized almost exclusively for the protection of the family. Today it serves a multitude of useful purposes. This is illustrated by the many policies and kinds of insurance described in this book, and by the following examples.

### VARIETY OF USES

Wealthy men and women invest their surplus funds in life insurance.

Benevolent people who wish to leave money to educational or charitable institutions, but who do not wish to encroach upon the capital they intend to leave to their heirs, insure their lives for the benefit of these institutions.

Young men without dependents insure in order that they may thus constrain themselves to save.

Business men and self-supporting women take Endowment insurance, or Deferred Annuities, to provide for their declining years.

Fathers take policies to pay for the school and college education of their children.

The members of a college class take insurance to provide a fund for the benefit of their Alma Mater.

### BUSINESS INSURANCE

Partners insure for the benefit of the firm; corporations insure the lives of their officers to protect the organization against the loss of influence, experience, expert skill, or capital, and Endowment insurance is taken to provide sinking funds to protect issues of bonds, or to extinguish other financial obligations.

### THE INSURING HABIT

Some years ago, upon the death of a prominent Philadelphian, it was discovered that whenever he had started some new enterprise, he protected it with a policy on his life. His theory was that if he lived the enterprise would succeed, but that if he died his widow might not be able to develop it successfully. Consequently, the insurance was taken to offset any shrinkage that might result. It was a wise precaution, for he died suddenly and unexpectedly, and the insurance served the purpose for which it had been taken. The insuring habit, as illustrated in this case, is a habit well worth cultivating.

## SOLVENCY AND REPUTATION

I know of a case where a young man saved not only his fortune, but also his reputation, by insuring his life.

He had accumulated some capital, and was one of the junior officials of a certain corporation.

His capital was embarked in an enterprise, which a trusted friend was trying to develop.

This young official was sent away on a foreign mission, and while absent, his trusted friend mismanaged his enterprise, and in trying to save it from disaster borrowed money from certain financial institutions on the strength of his associate's official connection with the corporation of which he was the servant.

When the young official got back his capital was gone and his reputation was threatened. But he still had good credit, and got his personal note discounted at the bank with which he dealt, and instantly paid off the loans that had been improperly negotiated in his name.

He was anxious to liquidate the personal debt thus created as quickly as possible, but he was afraid to suddenly change his mode of life lest his credit should be impaired. At the same time he saw no way of paying his debt quickly unless he ruthlessly cut down his expenses. He was in a dilemma. And his anxiety was so great that he was in imminent danger of breaking down; for he knew that if he died his family would be destitute.

A life insurance man solved his problem. He was still in the receipt of an adequate salary, and was consequently able to insure his life for an amount sufficient to pay his debt in the event of his death, and leave something in addition for his widow.

But his life was spared, and he was given time to pay off his debt quietly and gradually. After that he began saving again, and finally accumulated as much capital as he had lost. Thus he doubled his estate, for he was able to add his life insurance to the money he had saved.

## INSURES WILLS

I know of another case where a man, after failing to make a satisfactory will, was able to solve all his difficulties by means of life insurance.

He had accumulated a capital sufficient for the support of his wife and daughter, and had drawn a will setting aside a definite sum to be placed in trust for the daughter; leaving the residue of his estate to his wife. But the market value of his investments began to show depreciation, and he was disturbed by the thought that after the withdrawal of the trust fund for his daughter very little might remain for his wife.

He had other grounds for dissatisfaction: he learned that the trust company appointed to carry out the trust would be forced under the law and its own rigid rules to sell his securities and re-invest the money in

municipal bonds or real estate mortgages that would yield a very low rate of interest. He also knew that the income would be further reduced by the legitimate fees which the trust company would charge. Thus he became altogether dissatisfied with his will, and was at a loss to know how to proceed. But it so happened that he carried a substantial amount of insurance on his life, and having told his perplexities to the agent who had persuaded him to insure, he made the following adjustment under that agent's guidance. He placed the greater part of his life insurance in the name of his daughter, *stipulating that the insurance at maturity should be paid, not in one lump sum, but in the form of a monthly income for life.* He then tore up the will he had made, and drew another, under which he left the whole of his invested property and the balance of his life insurance, without any restrictions, to his wife.

When savings are put into life insurance, certain penalties and risks are avoided. Insurance money for example, goes to the beneficiary without impairment and without expense. No inheritance tax reduces its amount, and no conflict of interest is likely to delay or threaten its payment.

Wills are proverbially easy to break; and not long ago the will of the chief justice of the highest court in Pennsylvania was set aside by his former associates.

Lawyers as well as laymen are constantly making wills that fail to carry out the wishes of the testator. And in many cases where the testator's will is ultimately satisfied, long and expensive litigation intervenes, resulting in hardship and loss. On the other hand, the proceeds of a policy in favor of a relative, friend, employe, old servant, or some other individual; or a policy to endow some religious, educational or charitable institution, will reach its destination without question, deduction, or delay.

It is a truth of almost universal application that the man who has an adequate amount of life insurance can draw a safe will and make a satisfactory adjustment of all his affairs. It is equally true that the man who has no insurance is usually beset by many perplexities when he comes to draw his will. *It is a sound maxim that every man should consider his will and his life insurance in conjunction.*

## LIFE INTERESTS

The man who has a life interest in an estate can, by means of life insurance, provide an income for the support of his dependents after the income from the estate has been cut off. On the other hand the man to whom an estate will revert if he outlives those who have a life interest in the income produced by it, can, by means of life insurance, protect the future of his family, or borrow money on his contingent interest in the estate.

## FOR COLLEGE STUDENTS

The following plan for teaching thrift and extending life insurance is described by a young man who became an insurance solicitor shortly after leaving college:

> "I figured that most successful business men either carried enough life insurance, or would naturally place additional policies with old friends or business acquaintances. So I determined to go after young fellows. I made out a list of the wealthier students at Harvard and then called on their fathers. I pointed out to the father that with school and college expenses he was making an investment in his boy of some thousands of dollars. I then explained that the 'risk' should be covered by insurance; the father to pay the premiums while the boy was in college, and then turn the job over to him when he entered business or professional life. This would help develop in the young man the idea of thrift, and his insurance taken out at such an early age would cost much less. Out of the twenty-five men I talked with I wrote policies for sixteen, and I am 'going to it' among other colleges when I get through with my Harvard list. And I'll stick along with those fellows after they get into business or professions."

## PARTNERSHIPS

When a member of some business firm dies, if his life has been insured for the benefit of the firm, many embarrassments may be avoided. If, for example, his interest in the business reverts to his widow, the insurance may aid the surviving partners in making a satisfactory settlement with her. Otherwise the enterprise may be crippled in consequence of the withdrawal of capital; or the widow may demand a full share of the profits even if unable to aid in maintaining or developing the business.

## CREDIT

The man who wants to borrow money from a bank finds it much easier to make a satisfactory arrangement if he can offer life insurance in addition to other collateral. Many banks demand insurance in such cases. In addition to this the mercantile agencies and banks are beginning to put questions about life insurance in the blanks they use to aid them in determining the financial standing of business men.

## PROTECTS THE HOME

Those who lend money to enable men of moderate means to build or buy their own homes often require the borrower to provide a sufficient amount of life insurance to discharge the mortgage in the event of premature death, on the theory that it is disagreeable to be compelled to evict widows and orphans from their homes.

The purchasing power of money is steadily shrinking. Consequently, many men who carry life insurance are taking additional policies in order that their resources may correspond with the increasing cost of living.

Sometimes a man, after accumulating a capital which he has deemed sufficient to provide for the future support of his family, finds that it has become inadequate in consequence of depreciation in values or shrinkage in income. Such deficiencies can be repaired by means of life insurance.

But the resources of most men die with them. Salaries stop and earnings are cut off. The widow of the physician cannot hold his patients, and the lawyer's clients seek new counsel. In such cases, unless capital has been accumulated, misery and want are the portion of the widows and orphans who are not protected by life insurance.

## 91. Collateral benefits

The companies have become very liberal in extending collateral advantages to their policyholders.

Many of the companies issue policies under which, if the Insured becomes absolutely and permanently disabled, the further payment of premiums will be waived. In some cases, the company pays the disabled policyholder an income for life, without encroaching upon the amount of insurance payable to the beneficiary after his death.

Some companies add an accident feature, stipulating that if death is the result of an accident, double the amount of the insurance contracted for shall be paid to the Beneficiary.

Many other examples might be cited, but enough has been said to illustrate the fact that modern life insurance meets a great variety of needs.

## 92. Incidental Advantages

The full value of life insurance is not apparent if we consider its direct benefits only. To these must be added many incidental advantages.

The young man who takes a policy instantly becomes a capitalist. And the capital thus created may be the germ of a successful career, and form the nucleus of a substantial fortune.

The man who takes insurance for the protection of his family safeguards his business, and the man who protects his business by means of life insurance benefits his family.

The man who carries an adequate amount of insurance gains confidence in himself, and increases the facilities for extending his credit and developing his enterprises. He is relieved of worry and care. The cheerfulness which ensues preserves his health and increases his efficiency.

Multitudes of men have testified that when ill the thought that they had protected those dependent upon them by means of life insurance has done them good like a medicine. And many of these men have expressed the belief that their recovery has been largely due to the peace of mind which this thought has given them.

Finally, life insurance is the most effective of all teachers of thrift. It provides the easiest, safest, and best known method of establishing and fostering the habit of saving. In this connection the distinguished editor of *The Outlook*, Dr. Lyman Abbott, has said.

> "What many men count an objection to life insurance I count its first advantage. It compels thrift; it necessitates saving; it puts the Insured under bonds to lay up a few dollars every year to provide for the future."

It is our duty to live without anxious thought for the morrow, and life insurance is a simple method of setting the mind free from such anxious thought and therefore should be adopted.

*Charles Spurgeon.*

## 93. Public Service

The benefits conferred on the public at large by life insurance are equally significant.

The small sums deposited by individual policyholders would in most cases lie idle or be spent if they were not invested in life insurance. But these small sums pouring in steady streams from all quarters into the treasuries of the insurance companies form great aggregations of capital, which must be prudently invested pending their disbursement in the settlement of policy claims. And the investment of this money throughout the length and breadth of the land is of enormous value to the people. It helps to build railways; extends transportation facilities; furnishes capital for the purchase of homes, and the erection of office buildings, schoolhouses, hospitals, highways, bridges, water works, filtration plants and other public utilities upon which the prosperity and comfort of our people largely depend. At the same time the Nation and the State are relieved of intolerable burdens; for, as the protection of life insurance is extended, fewer people are left dependent upon public charity, and the necessity for building and maintaining asylums, poorhouses, and jails is steadily lessened.

These are some of the reasons why savings invested in life insurance should not be preyed upon by National and State governments. If it is right to exempt savings banks from taxation, it is right that a part at least of the heavy taxes now levied on the policyholders of our insurance companies should be removed.

> When I was a young man I took out two policies for my mother. One was for $2500, and the other for $5000. I'm going to hold on to them. That is the thing for everybody with somebody dependent on him. Get a policy and then hold on to it. It means self-respect, it means that nobody will have to put something in a hat for you or your dependent ones if you should be snatched away from them.
>
> *Grover Cleveland.*

## 94. How much insurance should a man carry?

It is seldom that a man's life is fully insured in the sense that a building or a ship is fully insured.

A wealthy man may deem it wise to carry a large amount of life insurance, but he will not be likely to insure his life for its full value as measured by his money-making ability.

Others may not be able to save enough from their incomes to fully insure their lives.

Consequently, the man who carries as much as he can conveniently pay for is not likely to carry too much.

Most men are inadequately insured. One reason for this is that they fail to recognize the fact that the proceeds of a policy should be regarded as capital to be invested, so that the family may be permanently supported by the income it can be made to produce.

> Example: Consider the case of a man who has no capital, and spends the greater part of an annual income of $6,000. Assuming that of this income $3,000 is required for the direct support of wife and children, and assuming further that in the event of this man's death his family could, by moving to the country and exercising the strictest economy, get along on half that sum, it will be obvious that he ought to carry at least $30,000 of insurance; for that sum invested at 5% would yield only $1,500 a year.

Every prudent man whose life is insured should review his situation from time to time; for, as his family and responsibilities increase, he will be very likely to need additional insurance.

> Life insurance increases the stability of the business world, raises its moral tone and puts a premium upon those habits of thrift and saving which are so essential to the welfare of the people as a body.
>
> *Theodore Roosevelt.*

## 95. The policyholder's right point of view

The premium on a fire or marine policy is an expense. If the building does not burn, if the ship does not sink, there will be no return. But this expense is regarded as not only desirable but essential. Now, many people regard life insurance as they view fire and marine insurance. They regard the premiums as an expense, and something of a burden. This is not the right point of view. The premiums paid on a life insurance policy should be regarded as instalments of capital entrusted to the insurance company for safekeeping. The policyholder should realize the fact that if the policy is continued, it will *necessarily* mature and be paid, because what is only a possible contingency in the case of a building or ship, is a certainty in the case of a human being, since every man must die.

If a man invests in a life insurance policy and dies prematurely, the return will be so large in proportion to the small amount paid in premiums that the advantage of the transaction will be obvious to the most casual observer. But if life is prolonged, unthinking people may conclude that the transaction will be unprofitable. This, again, is an erroneous point of view. The man who lives long can have no previous knowledge of the fact, and can well afford to pay for the protection furnished by life insurance on that account, just as he would pay for his fire or marine insurance. And here again the life insurance contract has an additional advantage. It is true that the policyholder who lives long will pay more for his insurance, but the rate *per annum*—the amount set aside to pay for his insurance from his yearly income—will not be more. In addition to this, he will be given time to develop his business enterprises, extend his business, accumulate capital, and thus be able to place those dependent upon him in a far stronger position than they would occupy if his life had been cut short. When these advantages are added to the certainty that the insurance will necessarily be paid at some time, the value of the investment, even if life is prolonged, is obvious.

# XXXII. POPULAR FALLACIES ABOUT LIFE INSURANCE

## 96. Popular fallacies

Here are some of the mistakes that the uninitiated make about life insurance.

*That a man can insure himself.* Insurance is based on averages, but there is no such thing as an average of *one*.

*That a man can take better care of his money than any insurance company.* Perhaps he can if he has exceptional opportunities and unfailing judgment, and can guarantee the continuance of his own life. Otherwise, he had better turn to life insurance. No man has ever been able to manage his estate after his death.

*That a man can invest his money to greater advantage.* Not if death intervenes, or if he lacks broad experience and aptitude. Besides this, few men save small sums, or invest them so as to make them earn interest. But the insurance company consolidates in one large investment-fund the small savings of many individuals, and thus has special facilities for investing money advantageously, and of making it breed money.

*That a man should put all his savings into his business.* The object of insurance is not to make, but to protect, money. Today the astute business man not only protects his family, but safeguards his business, by means of life insurance.

*That a savings bank is better.* Not if death intervenes, or if the money deposited is withdrawn and wasted. It is an interesting fact that at the present time banks and trust companies throughout the country are inserting advertisements in the newspapers advising their depositors to seek the protection of life insurance, and suggesting the establishment of special accounts from which to pay insurance premiums. The most enlightened men are taking advantage of the services of *both* banks and life insurance companies.

*That insurance is gambling.* The contrary is true. The man who does not insure is betting against death, and sooner or later his loved ones will be the losers. Insurance removes the gambling element from life.

*That the interests of the company are antagonistic to those of the policy-holder.* This is one of the most insidious of fallacies. The interests

of the company and those of its policyholders are identical. As a matter of fact the policyholders form the company. Consequently, if the company is injured they suffer and if the company prospers they are benefited.

*That insurance is costly.* Insurance .s not an expense. It is a business device for laying by for future use small sums saved from year to year. Moreover, in the event of premature death the money which the policyholder would have saved if he had lived and which he has been prevented from saving is provided by the insurance company.

*That all insurance is expensive.* The premiums for certain kinds of insurance are higher than for other kinds, but in any case the policyholder gets an equivalent for the premium he pays. Those who invest in the policies for which charges are high do so because of the special advantages that are secured. The charges for policies that grant insurance protection exclusively are seen to be moderate when issued on the non-participating plan, or on the participating plan if REFUNDS are taken into consideration.

*That people fail to insure because they are unwilling to pay.* Men are willing to pay for good bargains, and multitudes have testified that their best bargains have been life insurance policies. Those who are able to pay but are unwilling to do so are those who are ignorant of the real value of insurance.

> If it is true that "Uneasy lies the head that wears a crown", it is still more true that uneasy lies the head of the uninsured. I remember the night after I took my first policy, my pillow seemed a little softer than it had been before. The little ones had begun to come in my family, and I know the feeling of satisfaction that came because I had done something for their protection.
>
> *Cyril Maude.*

# XXXIII. HOW TO SELECT A COMPANY

## 97. Only sound insurance is safe

Money set aside for the support of widows and orphans should be invested with scrupulous care and discrimination. Hence the man who invests in life insurance should choose a company with as much care as a trustee selects investments for trust funds.

He should choose a "regular" company, based on scientific principles, and conducted with prudence and efficiency.

Every company publishes, from year to year, a financial statement, and is compelled to file full details regarding its operations with the Insurance Department of every State in which it transacts business. The company's Reserve and Surplus, its receipts and expenditures, and the volume and character of the risks carried, must be given, together with schedules of its invested assets. These records are carefully scrutinized by the various departments, and are issued in book form in the Official Report published annually by each department. And the department of the State under whose laws a particular company has been incorporated must make an independent "valuation" of the company's insurance obligations, from time to time, to determine whether or not adequate reserves have been maintained.

In addition to this, every company that has been in business for any length of time has a public reputation which may usually be relied upon as a safe guide to men of ordinary intelligence.

To the question, "How shall we know what companies are sound and well managed?" the late Henry Ward Beecher once replied:

> "Just as you know what banks are good. By inquiring. By using your common sense. Just as you find out a good doctor, a good lawyer, a good school, a good hotel."

Insurance brings peace and prevents ruin to innumerable lives and homes.

*Andrew Carnegie.*

## SERVICES RENDERED BY LIFE INSURANCE
(Continued from Page 96.)

It protects partnership and corporate interests.

It protects new enterprises while they are being developed.

In certain cases it converts speculative ventures into legitimate and safe business enterprises.

It enables a man to leave money to friends or public institutions, without impairing the estate he leaves to his heirs.

It indemnifies a firm or corporation for the loss of capital influence, experience or skill, resulting from the death of a partner, officer, or important employe.

It enables an employer to reward his employes for steadfast service by protecting those dependent on them.

It enables a firm or corporation to provide a sinking fund for the payment at maturity of an issue of bonds, or for the future liquidation of obligations of other kinds.

It protects mortgaged real estate. A "life" policy pays the mortgage if the borrower dies. It gives him time to discharge the obligation if he lives. An "endowment" policy pays off the mortgage whether the borrower lives or dies.

It saves the lenders of money on real estate the painful duty of evicting widows and orphans from their homes.

It aids a man in drawing a satisfactory will.

It is exempt from the inheritance tax.

It continues the income derived from a "life interest" in an estate.

It protects the family of a man who will inherit an estate upon the death of some person who has a "life interest" in it.

It enables a person who will inherit an estate as soon as a "life interest" in it has expired, to borrow money to meet his expenses meanwhile.

# SEVENTH PART

## TECHNICAL WORDS AND PHRASES

It is only fair under existing economic conditions that at marriage a husband should insure his life in his wife's interest, and I do not think it would be impossible to bring our legal marriage contract into accordance with modern ideas in that matter. Certainly it should be legally imperative that at the birth of each child a new policy upon its father's life, as the income getter, should begin. The latter provision at least should be a normal condition of marriage and one that a wife should have power to enforce when payments fall away. With such safeguards and under such conditions, marriage ceases to be a hapazard dependence for a woman, and she may live, teaching and rearing and free, almost as though the co-operative commonwealth had come.

*H. G. Wells.*

# XXXIV. DEFINITIONS AND EXPLANATIONS

**98. Actuary.** The Officer who deals with the mathematical part of the business; computes premiums and other charges; "values" the policies (thus determining the necessary reserves) apportions REFUNDS (dividends); computes surrender values; aids in drawing up the company's Annual Report; studies its mortality experience, and does many other useful things.

**99. Addition.** The REFUND on a policy may be drawn in cash, or deposited with the company at interest, or applied to the reduction of a premium, or used as a single premium to buy paid-up insurance to increase the amount of the policy. When applied in the last way it is called a "dividend addition," or simply an "addition."

**100. Additional policy.** Sometimes the agent, believing that his prospect ought to have more insurance than he has applied for, asks the company to send an *additional* policy, on approval. If the additional policy is accepted the agent does not deliver it until the prospect has signed an Application for it, and has paid the first premium on it.

**101. Admission of age.** The company contracts to pay the amount of insurance for which it has received compensation. If after a man dies it becomes evident that his policy has been based on an incorrect statement of his age, a readjustment will be necessary. So, to avoid future trouble and confusion, the company stands ready to "admit" the age of any policyholder when the policy is issued, or at any time thereafter during his lifetime. That is to say, if the Insured will submit reasonable evidence that his age has been correctly stated, the company will "admit his age"—will agree that there shall be no dispute on that score when the time for settlement arrives.

**102. Admitted assets.** The total Assets represent the total property of the company, but certain investments may not be in accordance with the standards prescribed by the Insurance Law. Hence, without regard to their value, such investments must be deducted from the Assets in the financial report the company files with the Insurance Department. Thus the company's "Admitted Assets" as distinguished from its total Assets are shown.

**103. Admitted surplus.** The difference between "Admitted Assets" and the company's Liabilities (See §102.)

**104. Adverse selection.** If a company should offer to restore all lapsed policies without re-examination, most of the healthy people would remain away and most of those in ill health would apply for restoration. In such a case the injury the company might suffer would be due to "adverse selection."

**105. Age.** In all life insurance transactions the policyholder's age is determined by his *nearest* birthday, whether past or future. (In the case of Annuities the age is determined by the previous birthday, an allowance being made for each elapsed quarter.)

*Example:* If a policy should be issued this year in February, on the life of a man who was 33 years old last year, say on November 6th, and who will consequently be 34 this year on November 6th, the correct age of the insured will be 33, because his 33rd birthday, although past, is nearer than his 34th birthday. But if the same man should apply for another policy in July of the present year, it would be issued at age 34, because by that time his 34th birthday, although still in the future, would be nearer than his 33rd birthday.

**106. Age limit.** The company usually refuses to insure those who have passed a certain age, known as the "age limit."

**107. Agency manager.** The field representative of a company, usually in charge of a specified territory with jurisdiction over a staff of "soliciting agents."

**108. Agent.** The representative of the company in the field. The agent is sometimes called an "insurance salesman." He is the intermediary between the company and the applicant. The applicant is the agent's "customer" or "client." In a properly conducted company the interests of the organization and the interests of the policyholder are identical. Hence the agent is, or ought to be, the representative both of the company and of his client—There should be no embarrassment, or conflict of interests, as a result of this dual representation.

**109. Agent's contract.** The contract embodying the terms of the agreement under which he is to work, and stating his compensation for the services he renders.

**110. Agent's responsibilities.** (See §108.)

**111. Alternate Policy.** After a man has applied for a policy of a certain kind, the agent may conclude that a policy of another kind will fit the case better. In such a case the company may issue the policy applied for, and also a policy of the other kind. If so, the latter will be known as an "alternate policy." The agent must not deliver both, but the applicant may accept and pay for either, and the one rejected must be returned for cancellation.

**112. American experience table.** Title of the mortality table used by the Insurance Department of the State of New York, and by many other departments, and by many companies.

**113. Annual statement.** The financial report issued at the end of every year by the company.

**114. Annuitant.** The person on whose life an Annuity depends.

**115. Annuity.** (See §117. See also §78.)

**116. Annuity-certain.** An Annuity which runs for a stipulated number of years and then terminates.

**117. Annuity contract.** The contract, or policy, under which the company agrees to pay an income to the Annuitant. The Annuitant is the person on whose life the Annuity depends. The price which he pays is the "Consideration for the Annuity." The Annuity Payments are the instalments of income paid to the Annuitant by the company.

**118. Annuity-due.** An Annuity under which the first annuity payment is due not at the *end* of the first year, but at the *beginning* of the first year—at the moment the transaction is entered into.

**119. Applicant.** The person who applies for insurance.

**120. Application.** The blank on which the Applicant applies for insurance. It must be signed by the Applicant and witnessed. Usually the Application and the Policy taken together form the contract. But it is the usage with some companies to make the Application simply the basis for the contract, in which case the Policy alone is the contract. The report of the Medical Examiner may be made a part of the Application, or may be regarded as a separate instrument.

**121. Apportioning surplus.** REFUNDS (dividends) are paid from Surplus. When a sum of money is set aside for the purpose of paying dividends to policyholders, it is referrred to as an "apportionment of surplus." When a dividend is "declared" it becomes a definite obligation.

**122. Assessment insurance.** (See §77.)

**123. Assets.** The capital, or property of the company. It is not *called* "capital" because that word is used exclusively to describe the Capital Stock of an insurance company.

**124. Assurance.** Synonymous with "insurance" when applied to life insurance. Efforts have been made from time to time to confine the use of the word "assurance" to *life* insurance, and the word "insurance" to *other kinds* of insurance. But such attempts have never succeeded.

**125. Beneficiary.** The person to whom the proceeds of the policy are to be paid.

**126. Binding receipt (or conditional receipt).** Some companies stipulate that if the Applicant pays the premium when he signs the Application, the insurance will take effect immediately if the risk is found by the company to be satisfactory. In such a case the agent gives a "binding" or "conditional" receipt in exchange for the premium.

**127. Bonus.** Synonymous with "dividend." Used almost exclusively abroad. (See §31.)

**128. Brokerage.** When an agent's compensation is limited to a percentage of the first premium it is called a "brokerage." (See §138.).

**129. Business insurance.** Insurance taken to safeguard some business transaction, or to protect a firm or corporation.

**130. Capital.** (See §123.)

**131. Cash Dividend.** When a REFUND is drawn in cash or used in part payment of a premium or left on deposit with the company at interest, it is called a "cash dividend". (See §99.)

**132. Cash Value.** When the company buys a policy for cash, the amount payable is the "cash surrender value," or the "cash value". (See §287.)

**133. Change of Beneficiary.** Under modern policies it is usual to give the Insured control over the contract during his lifetime, under a clause permitting him to change the Beneficiary. But the Insured can waive that privilege if he sees fit, and make the Beneficiary's interest in the contract absolute.

**134. Charges.** In life insurance computations it is always *assumed* that premiums are payable annually in advance. For example the annual premium at age 35 for an Ordinary Life Policy for $1,000 is $28.11; but if the Insured prefers, he can pay premiums semi-annually ($14.62 in advance and $14.62 at the end of six months). Or he can pay it in quarterly instalments ($7.45 at the beginning of each quarter.) The slight increase in the charge is to compensate the company for loss of interest, additional labor, etc.

Note that the rate for small policies is the same as for large policies. The rate for $1,000, as stated above, is $28.11. For $10,000 of the same kind of insurance the rate is ten times that sum, $281.10.

**135. Charges Vary.** If one company uses one mortality table and another company uses another table, even if the same interest standard is employed, there may be differences in the *pure* premiums; but these differences will be trifling. More important differences appear in the *gross* premiums. This is because the "loading" added to the pure premium by one company may be higher than the "loading" added by another company. (See §20.)

The foregoing statement relates, of course, only to "regular" companies, and to insurance issued on the same basis. The loading on policies

issued on the "participating" basis is higher than on policies issued on the "non-participating" basis.

**136. Child's Endowment.** (See §71.)

**137. Claim.** When an Endowment matures it becomes a "claim," and when any policy matures in consequence of death it becomes a "death claim."

**138. Commission.** When the agent's compensation is a percentage of the first premium and a percentage of a certain number of subsequent premiums, he is said to be remunerated on a "commission basis."

**139. Commissioner of Insurance.** Or Superintendent of Insurance. The government official at the head of an Insurance Department.

**140. Composition of Surplus.** (See §33.)

**141. Conditional Receipt.** (See §126.)

**142. Consideration for Annuity.** The purchase price of an Annuity.

**143. Contested Claim.** When a company refuses to pay the insurance under a policy, it is referred to as a "contested claim." The phrase usually indicates that the case is in litigation.

**144. Continuous Instalment Policy.** Another name for Life Income Insurance.

**145. Contract.** A policy is often referred to as an "insurance contract," or simply as the "contract."

**146. Contract of Insurance.** Generally employed as a synonym for "policy", although with many companies the entire contract is the Application and Policy taken together.

**147. Conversion Privilege.** An Ordinary Life policy may be converted into a Limited Payment Life form, or a Limited Payment Life policy may be converted into an Endowment, upon payment of additional premiums for a stipulated number of years; or, by leaving all REFUNDS to the credit of an Ordinary Life Policy, a sum will be gradually accumulated which, together with the reserve on the policy, will

be sufficient to make the contract a paid-up policy. Similarly, the holder of a Limited Payment Life Policy can convert it into an Endowment policy. The right to make such a change is called a "conversion privilege." The right to exchange a Term policy for one on a permanent form is also referred to as a "conversion privilege."

**148. Cooperative Insurance.** (See §77.)

**149. Corporate Policy.** A form drawn expressly to meet the requirements of a business corporation, and making the corporation the absolute owner of the policy.

**150. Creditor's Policy.** A policy taken by a creditor on the life of a debtor.

**151. Death Claim.** The amount due under a policy on the death of the Insured is called a "death claim." The phrase is also used to describe the documents setting forth the claim.

**152. Death Rate.** The mortality experience of the company. Usually stated on a percentage basis.

**153. Declaring a Dividend.** The company may set aside surplus from which REFUNDS may be paid to policyholders, but a dividend is "declared" only when it is actually apportioned, and the company has thus acknowledged its obligation to pay it.

**154. Deferred Annuity.** (See §88.)

**155. Deferred Dividend.** A dividend which is not payable at once, but will be due at some future date.

**156. Deferred Dividend Policy.** A term used to designate a class of insurance (no longer issued in New York and certain other states) under which dividends do not begin until the policy has been in force for a stipulated period of years.

**157. Deferred Premium.** All life insurance is issued on the theory that each premium will be paid annually in advance. But, if desired, the contract may be drawn so that the premium shall be paid in semi-annual or quarterly instalments in consideration of a slight increase in the rate. In that case any part not payable in advance is called a "deferred premium."

**158. Delivery of Policy.** A life insurance policy is so drawn that it is the receipt for the first premium. When it is said that a policy has been "delivered," it does not mean that it has simply been handed to the Insured; it mean also that the premium has been paid and the policy is in force.

**159. Department Valuation.** The actuary of every company must value its policies every year, to determine the amount of the RESERVE which the company must hold to protect the future of its outstanding insurance. It is one of the duties of the Insurance Department of the State under whose laws the company is organized to make an independent valuation of its policies from time to time in order to be sure that the company has actually set aside the requisite amount of RESERVE.

**160. Deposit.** The annual payment made by the policyholder to the company is technically known as the "premium." But the word "premium" has other meanings and is sometimes confusing to laymen. Hence the word "deposit" is sometimes used as a synonym for "premium."

**161. Disability Privilege.** Some companies, in consideration of a small additional premium, insert a clause in some of their policies, under which, if the Insured becomes totally and permanently disabled, the further payment of premiums will be waived. Or the company may go further and agree to pay the insurance in instalments while the Insured is still living. These are called "disability privileges."

**162. Dividend.** A refund, or return premium. (See §31.)

**163. Dividend Notice.** When a dividend has been declared on a policy the company usually sends the Insured a slip stating the amount of the dividend, the date it is due, and the various ways in which it may be utilized.

**164. Dividend on Paid-up Insurance.** The premiums on a policy may cease before the maturity of the insurance. If so, the annual dividends paid thereafter will drop. As there will be no *premium*, there can be no premium *return*. Then the dividend will consist only of interest savings and other small items of saving or profit.

**165. Double Indemnity.** (See §91.)

**166. Endowment Period.** The period at the end of which an Endowment policy matures. Usually the premiums are payable throughout the same period, but this is not necessarily the case. For example, a 20-year Endowment may have a 15-year premium period. If so, premiums must be paid for 15 years, after which the policy will be "paid-up." But the insurance will not be paid until 5 years later (unless the policy matures in consequence of prior death).

**167. Endowment Policy.** (See §66.)

**168. Expectation of Life.** (See §169.)

**169. Expectation Table.** By utilizing what is known as the Mathematical Theory of Probabilities in connection with the Mortality Table, actuaries have been able to frame expectation tables, such as the one on the following page.

Those who are uninitiated often misread such a table. A novice may hear, for example, that the "expectation of life" of a man 29 years old is 36 years. And if that is his own age he may conclude that the table predicts that he will live about 36 years longer. But the table indicates nothing of the kind. Illness or accident may carry this man off in a few days; or if he is exceptionally vigorous he may live to be 90, or even 100. The table makes no predictions regarding *individuals*. It gives us simply the *average* duration of life of a *large body of people* normally situated. For example, the sum of the years which 10,000 men all 29 years will live according to the table, will be approximately 360,000 years. This makes the *average* length of life of the people composing this body, 36 years.

**170. Expense savings.** Premiums are based on an assumed rate of expense. When the actual expenses are less than this assumed rate, the difference represents the expense saving, which is credited to SURPLUS, thus increasing the fund from which dividends to policyholders are paid.

**171. Extended Term Insurance.** When a policy is sold to the company for its surrender value, that value may be represented (a) by so much cash, or (b) by a certain amount of paid-up insurance, or (c) the original policy may be extended for its full amount for a limited term, at the expiration of which it will become extinct. This last is known as "extended term insurance."

**172. Extension.** When a policyholder finds that he will be unable to pay the premium when his grace expires, the company may, on application before the date on which the grace will expire, extend

## EXPECTATION TABLE

*Based on the American Experience Table of Mortality.*

| Years Old | Expectation Years | Years Old | Expectation Years | Years Old | Expectation Years |
|---|---|---|---|---|---|
| 10 | 48.7 | 40 | 28.2 | 70 | 8.5 |
| 11 | 48.1 | 41 | 27.5 | 71 | 8.0 |
| 12 | 47.4 | 42 | 26.7 | 72 | 7.6 |
| 13 | 46.8 | 43 | 26.0 | 73 | 7.1 |
| 14 | 46.2 | 44 | 25.3 | 74 | 6.7 |
| 15 | 45.5 | 45 | 24.5 | 75 | 6.3 |
| 16 | 44.9 | 46 | 23.8 | 76 | 5.9 |
| 17 | 44.2 | 47 | 23.1 | 77 | 5.5 |
| 18 | 43.5 | 48 | 22.4 | 78 | 5.1 |
| 19 | 42.9 | 49 | 21.6 | 79 | 4.8 |
| 20 | 42.2 | 50 | 20.9 | 80 | 4.4 |
| 21 | 41.5 | 51 | 20.2 | 81 | 4.1 |
| 22 | 40.9 | 52 | 19.5 | 82 | 3.7 |
| 23 | 40.2 | 53 | 18.8 | 83 | 3.4 |
| 24 | 39.5 | 54 | 18.1 | 84 | 3.1 |
| 25 | 38.8 | 55 | 17.4 | 85 | 2.8 |
| 26 | 38.1 | 56 | 16.7 | 86 | 2.5 |
| 27 | 37.4 | 57 | 16.1 | 87 | 2.2 |
| 28 | 36.7 | 58 | 15.4 | 88 | 1.9 |
| 29 | 36.0 | 59 | 14.7 | 89 | 1.7 |
| 30 | 35.3 | 60 | 14.1 | 90 | 1.4 |
| 31 | 34.6 | 61 | 13.5 | 91 | 1.2 |
| 32 | 33.9 | 62 | 12.9 | 92 | 1.0 |
| 33 | 33.2 | 63 | 12.3 | 93 | .8 |
| 34 | 32.5 | 64 | 11.7 | 94 | .6 |
| 35 | 31.8 | 65 | 11.1 | 95 | .5 |
| 36 | 31.1 | 66 | 10.5 | | |
| 37 | 30.4 | 67 | 10.0 | | |
| 38 | 29.6 | 68 | 9.5 | | |
| 39 | 28.9 | 69 | 9.0 | | |

the time of payment for a period of moderate length, in which case the policyholder must at the end of the period of extension, pay the premium with interest.

**173. Extra hazard.** A man who is engaged in a hazardous employment or who resides or travels in an unhealthy region, is considered an "extra hazardous" risk. A company will either refuse to insure such a man, or will put him in a special class, or will charge him an additional premium to cover the extra risk.

The regular charges of all life insurance companies are based on a mortality table which is supposed to represent approximately the rate at which people normally situated will die. But if a company is willing to insure people who are regarded as "extra hazardous" or "under average" risks, the policyholders may be placed in a special class, so that if the death rate is somewhat higher than the normal the deficiency can be made up by reducing the REFUNDS.

Sometimes a company sees fit to go even further than this, and is willing to insure a class of people who reveal some impairment in health, or are exposed to some special risk. In such a case the company may add something to the premium. This may be done by basing the premium on a mortality table whose figures have been increased by the addition of a small percentage; or by charging a "rated-up" premium. This method is often adopted in dealing with an individual. A company, for example, may be unwilling to insure a man 35 years old at the regular rate, but may be willing to "rate him up" three years, and charge the premium designed for a man 38 years of age.

Some companies transacting business in very hot countries charge an increased premium, known as a "tropical rate", and they may also have a "semi-tropical rate" for intermediate regions.

**174. Extra premium.** An extra premium may be charged for special benefits granted, or to provide for a special risk assumed.

**175. Family history.** When a man insures, he is asked certain questions about the longevity of the members of his immediate family, the causes of the death of relatives, etc. Such information is referred to as his "family history."

**176. First Year's premium.** The first annual premium is called the "first year's premium." Subsequent payments are called "renewal premiums."

**177. Forfeiture.** If the premium on a policy is not paid, the insurance lapses. If the lapse occurs before premiums for 3 (some-

times 2) full years have been paid, it is the general rule among life insurance companies to forfeit the insurance. But after three years the policy becomes "non-forfeitable". That is to say, if the policy is abandoned the Insured is entitled to a surrender value in cash, paid-up insurance, or extended term insurance.

**178. Forms.** A policy of a certain class is referred to as being of such and such a "form," or as being such and such a "form of policy."

**179. Fraternal Insurance.** (See §77.)

**180. Fully insured.** (See §94.)

**181. General Agent.** (See §107.)

**182. Government of companies.** A "purely mutual" company is controlled by its policyholders; has no capital, and conducts its business as a rule on the "participating" plan. A company conducted on the "non-participating" plan is controlled by the owners of its capital stock. A company conducted on the "mixed" plan is controlled as a rule by the stockholders, although its policies are issued on the "participating" plan.

In addition to this, there are companies that have a nominal capital, whose insurance business is conducted on the mutual basis. Such a company may be controlled by the stockholders, or by the stockholders and policyholders jointly, or by the policyholders exclusively. The older mutual companies are "purely mutual." But those organized in the State of New York since an amendment to the law was adopted in 1853, have been required to have a nominal capital of not less than $100,000, without regard to whether the control of the company rests with the owners of the capital, or with the policyholders.

**183. Grace.** It is the general rule among the companies to allow a "grace," usually of one month, in the payment of premiums, charging interest at a moderate rate, such as 5% if this privilege is taken advantage of.

**184. Gross premium.** The premium actually charged—the amount which the policyholder must pay. It is the premium derived from the mortality table, *reduced* by an allowance for interest, and *increased* by a "loading" for expenses and contingencies.

**185. Group insurance.** (See §72.)

**186. Immediate Annuity.** (See §84.)

**187. Impaired risk.** In general, any man who has lost his health. Specifically, a man who has been pronounced a satisfactory insurance risk but whose health has become impaired.

**188. Income from Annuities.** (See §79.)

**189. Income Insurance.** (See §67.)

**190. Incontestability.** In the beginning the company usually reserves the right to correct errors in a policy, or to modify or cancel the contract if fraud is detected. It is now the general usage, however, to agree that, after a policy has been in force for one year (or two), it shall be "incontestable"; that is to say, the company must assume that the policy as drawn is correct, and agrees to pay it at maturity without question, provided the premiums on it have been duly paid.

**191. Inspection.** An applicant who is satisfactory physically may not be acceptable to the company because of his environment, habits, or lack of financial ability. The physical condition of a man is determined by the medical examination. These other points are covered by an investigation called an "inspection."

**192. Instalment Insurance.** (See §73.)

**193. Insurable interest.** The law assumes that the Beneficiary under a policy will suffer some pecuniary loss upon the death of the Insured. In other words, the Beneficiary is supposed to have an "insurable interest" in the life of the Insured. This provision of the law is to prevent gambling in lives—to prevent the issuance of policies to persons whose death would be to the advantage of, and not a source of injury to, the Beneficiary. But in order that the law shall not restrict legitimate business, it has not been deemed necessary to impose minute restrictions. It is assumed, for example, that an insurable interest exists when the insurance is on the life of a relative, a business partner, or a debtor.

**194. Insurance defined.** (See §3.)

**195. Insurance Department.** (See §34.)

**196. Insurance in force.** The total amount of insurance outstanding at any given time on the books of the company.

**197. Insured.** The person on whose life the insurance depends. (Also called the policyholder.) The Beneficiary is the person to whom the insurance is to be paid. If desired, the Insured may be the Beneficiary, that is to say, the proceeds of the policy may be made payable to him if living, or to his estate after his death. In some cases there may be another party to the contract. For example, a creditor may secure a policy under which the Insured is his debtor, in which case the policy is made payable to the creditor, or is assigned to him by the Insured.

**198. Interest savings.** (See §33.)

**199. Interest Standard.** In determining premium charges and policy reserves, a certain rate of interest must enter into the computation. For example, if 3% is the rate the premiums are said to be on a 3% Standard. Similarly, we speak of a Reserve on the 3% Standard.

**200. Irregular premium.** If insurance is taken, say in January, and if the applicant wishes his annual premiums to fall due in some other month, such as April, the company will, for his convenience, charge an irregular premium to carry the insurance until the desired date in April, after which the regular premium will fall due in April from year to year.

**201. Joint Life Policy.** (See §74.)

**202. Lapse.** If the premium on a policy is not duly paid, the insurance lapses. (See §52.)

**203. Law of Average.** (See §10.)

**204. Law of Mortality** (See §11.)

**205 Legal Reserve Company.** A "regular," or "old line," company. These phrases are used to distinguish such companies from the organizations which have been called "fraternal," "assessment," or "cooperative" societies.

**206. Level premium.** (See §16.)

**207. Liabilities.** The total obligations of the company.

**208. Life Annuity.** An annuity which will continue to be paid until the death of the Annuitant.

**209. Life Income Insurance.** Insurance payable, not in one sum, but in the form of an *income* during the lifetime of the Beneficiary.

**210. Life insurance defined.** (See §2.)

**211. Life Policy.** All policies issued by a life insurance company are in a general sense life policies. The word "life" is, however, used in a technical sense to describe a policy which runs during the lifetime and does not mature until the death of the insured, thus distinguishing it from Term Insurance which may expire, and from Endowment insurance which may mature, while the Insured is still living.

**212. Limited Payment Policy.** A policy on which premiums are not payable for life, but are restricted to a certain period of years. In such a case the policy does not necessarily mature when the premiums cease. For example, a 20-Payment Life policy becomes "paid-up" at the end of 20 years, but does not mature until the death of the insured. An Endowment policy *usually matures when the premiums cease,* but this is not necessarily the case. For example, an Endowment may be issued under which premiums are payable during a period of 15 years, and the policy not mature until the end of 20 years.

**213. Loading.** (See §20.)

**214. Loan value.** The amount which the policyholder can borrow from the company, on the assignment of his policy to the company as collateral for the loan.

**215. Maturity.** When a policy is abandoned and its surrender value is taken, the contract is surrendered but does not "mature." The policy matures only at the time that its face value is payable, at the end of a stipulated period or upon the death of the Insured.

**216. Medical fee.** Usually a company has examining physicians at central points under salary. In other cases the physician receives a "fee" for each examination made.

**217. Medical Report.** The blank filled up and sent by the medical examiner to the company when an applicant for insurance has been examined. This is the company's chief factor in determining whether to accept the risk or not.

**218. Mixed Plan.** (See §41.)

219. **Modes of Settlement.** (See §274.)

220. **Mortality Savings.** (See §33.)

221. **Mortality Table.** (See §12.)

222. **Mutual Plan.** (See §39.)

223. **Natural premium.** (See §14.)

224. **Net premium.** (See §19.)

225. **Non-forfeiture.** During the first three years (in a few instances two years) no return is made by the company if a policy is allowed to lapse. In such a case the insurance is forfeited. But after the policy has been in force for three years or longer, it will have a surrender value, and as soon as it has a surrender value it is referred to as being "non-forfeitable."

226. **Non-participating Plan.** (See §40.)

227. **Non-Participating Policy.** A policy which does not participate in the surplus of the company—a policy on which no refunds (dividends) are paid.

228. **N. T. O. Policy.** Sometimes a policy is issued and forwarded to an agent for delivery. If the applicant refuses to pay for it, and if neither the company nor the agent attempts to hold him to his agreement, the policy must be returned to the company for cancellation. Some companies call such a policy an N. T. O. (not taken out) policy.

229. **Office premium.** Another name for the gross premium—the actual premium which the policyholder must pay.

230. **Old Line Company.** (See §17.)

231. **One-Year Term Policy.** A Term policy which runs for one year only and then expires.

232. **Options.** When the policyholder or Beneficiary is given a choice of several ways of utilizing a dividend, or settling a claim the different methods are often referred to as "options."

233. **Outstanding Insurance.** (See §196.)

**234. Paid-up Policy.** A policy which is self-sustaining either because a single premium has been paid in advance, or because all the premiums provided for have been paid.

**235. Paid-up value.** If a running policy is surrendered its cash value is the amount of money for which it can be sold to the company. The *paid-up value* is the equivalent amount of insurance which the company will be justified in granting in consideration of the premiums already paid, if no further premium payments are to be made.

**236. Participating plan.** (See §39.)

**237. Participating Policy.** (See §39.)

**238. Partnership insurance.** Insurance taken to protect the members of a business firm against the death of one or more of its members.

**239. Permanent Insurance.** Insurance which will *mature* and *be paid*, at the end of a stipulated period or upon the death of the Insured; as distinguished from Term Insurance, which will *expire* and become *extinct* at the end of the term agreed upon.

**240. Permit.** The instrument given by the company to a policyholder authorizing him to engage in some occupation, or visit some place not authorized under the policy contract.

**241. Perpetual Annuity.** (See §87.)

**242. Policyholder.** The person on whose life the insurance depends. Technically known as the "insured."

**243. Policy loan.** A policy that has been in force for 3 (or in some cases 2) years or longer, usually has a "loan value." The Insured can borrow from the company a sum not in excess of the cash surrender value of the policy at the time, at a specified rate of interest. The policy must be assigned to the company as collateral for the loan.

**244. Preliminary Term Insurance.** The man who insures today may want his regular premium to fall due at a later date. In such a case the company may be willing to carry the risk temporarily at a term rate, with the understanding that at the expiration of such temporary period, the regular tabular premium for the permanent form selected shall become due.

**245. Premium.** The payment made by the Insured to the company. Sometimes called a "deposit."

Insurance contracts are based on the assumption that the premium will be paid *annually* in advance. The company is willing, however, to receive payment in semi-annual or quarterly instalments, provided the policyholder is willing to pay a little more to cover interest, cost of collection, additional clerical work, etc. In such a case, the second semi-annual instalment, or the second, third and fourth quarterly instalments are called "deferred" premiums. If the Insured dies after paying the first semi-annual instalment, or after paying from one to three quarterly instalments, in any given year, the balance due for the balance of the year is deducted from the death claim.

**246. Premium Notice.** The reminder required by law, which is sent to the Insured, notifying him of the amount of his premium and the date on which it falls due.

**247. Premium term.** The period during which premiums are payable under a Limited Payment Life or Endowment Policy.

**248. Present Worth, or Present Value.** If a certain amount is payable at a certain future date, the present worth of that sum is an amount which laid aside in advance and increased by interest during the interval, will produce at that future date the exact amount then due.

**249. Privileges.** In most policies certain benefits, or special privileges, are embodied in the contract. These are often called "privileges."

**250. Proof of age.** (See §101.)

**251. Proprietary company.** A company owned and controlled by the owners of its capital stock.

**252. Prospect.** Any person who may reasonably be expected to invest in life insurance if properly solicited by the agent.

**253. Province of Agent.** The agent is not a party to the insurance contract, which is an agreement between the company on the one hand and the policyholder on the other; but he brings the parties to the contract together and negotiates the transaction. He is the licensed representative of the company, and should represent it faithfully. But as the interests of the company and its policyholders are identical, he can without inconsistency, be, and ought to be, also the adviser and representative of the policyholder.

254. **Pure Endowment.** (See §64.)

255. **Pure premium.** (See §19.)

256. **Quarterly Premium.** (See §134.)

257. **Rated-Up Policy.** A policy on which the premium charged is not at the Insured's true age, but which is "rated up," by making him pay the rate ordinarily charged for a man of older age. (See §173.)

258. **Reduction.** The refund (dividend) paid on a policy may be utilized in any one of a number of ways. When it is used as so much cash to reduce the premium paid by the Insured, it is called a "reduction."

259. **Refund.** (See §31.)

260. **Regular Company.** (See §205.)

261. **Reinstatement.** The company is usually willing to revive a lapsed or surrendered policy, subject to the payment of back premiums with interest together with a "certificate of health" from one of its medical examiners. In certain cases a declaration from the Insured may suffice.

262. **Reinsurance Fund.** (See §28.)

263. **Renewal Commissions.** When the agent of the company is compensated for his services on a commission basis, the amount paid him on the first premium is called the "first year's commission." Any commissions that may be paid on subsequent premiums are called "renewal commissions."

264. **Renewal premiums.** All premiums, after the first, payable on a policy.

265. **Reserve.** (See §26.)

266. **Restoration.** (See §261.)

267. **Restrictions.** If the policy does not authorize certain occupations, or if residence or travel in certain regions is prohibited, or if the company does not wish to assume certain risks under the contract, the clauses covering such points are called "restrictions."

268. **Return-premium Policy.** (See §75.)

269. **Risk.** In general any obligation assumed by a company is referred to as a "risk," but the policyholder himself is also referred to as a "risk."

270. **Salesman.** The agent is sometimes called an insurance salesman. (See §108.)

271. **Semi-annual Premium.** (See §134.)

272. **Semi-tropical rates.** Rates charged in regions between those in which regular and tropical rates are charged. (See §173 and §295.)

273. **Separate classes.** The categories into which different kinds of insurance, or different classes of policyholders, are separated.

274. **Settlement.** Theoretically a premium is supposed to be paid in cash, but sometimes the agent accepts a note for the whole or a part of the premium. Instead of characterizing the transaction as a payment, he refers to it as a "settlement." The payment of a policy at its maturity is also referred to as a "settlement."

275. **Simple Endowment.** Or "Pure Endowment." (See §64.)

276. **Single premium.** When one advance payment is the whole consideration for a policy, it is called a "single premium."

277. **Soliciting agent.** The agent who induces a man to insure and secures his signature to the application, is known as the "solicting agent," to distinguish him from the general agent, or manager, for whom he works. Nevertheless if the general agent, or manager secures the application, he himself becomes the soliciting agent.

278. **Sources of s[illegible]** (See §29 and §33.)

279. **Special Divi[illegible]Class.** (See §173.)

280. **Standard.** The pure premium is based on figures obtained from a mortality table, reduced by an allowance for interest. If the interest rate employed is 4%, the standard on which premiums are computed is said to be the 4% Standard; if 3%, the 3% Standard, and so on.

The reserves accumulated on the policies of a company will be larger or smaller, according to the rate of interest employed. If the rate is 4%, the reserve is referred to as on the 4% Standard. If the rate is 3% the corresponding RESERVE is on the 3% Standard.

**281. Stock Plan.** (See §40.)

**282. Sub-standard insurance.** (See §173.)

**283. Superintendent of Insurance.** (See §139.)

**284. Supplementary contract.** Some policies at maturity are payable in the form of an annuity, or income, or in instalments. In such a case the original policy is returned to the company for cancellation, and a supplementary contract is issued, under which the further provisions of the contract will be carried out.

**285. Surplus.** (See §29.)

**286. Surrender.** When a policy is sold to the company, or exchanged for paid-up, or extended insurance, it is given up for its "surrender value."

**287. Surrender Value.** The amount the company will pay for a policy, either in cash, paid-up insurance or extended term insurance (See §132.)

**288. Survivorship Annuity.** (See §68.)

**289. Table of Rates.** Every company issues for the guidance of its agents and the information of the public, tables containing its premium charges for different kinds of insurance, for the ages at which it is willing to issue policies.

**290. Taxes.** (See §34.)

**291. Temporary Annuity.** (See §85.)

**292. Temporary insurance.** (See §63.)

**293. Term Policy.** (See §63.)

**294. Three per cent Reserve.** (See §280.)

**295. Tropical Rates.** Special rates charged when business is done in very hot countries. (See §173 and §272.)

**296. Twenty A. P. Policy.** (See §62.)

**297. Twisting.** If a man having a policy is induced to abandon or surrender it for the purpose of taking a new policy the transaction is referred to as "twisting."

**298. Two-life Annuity.** (See §83.)

**299. Valuation.** The computation made by a company, or Insurance Department, to determine the proper RESERVE for the company to hold. (See §28.)

**300. Valuing policies.** The process of determining the Reserve of a company.

**301. Waiver of Premium.** Some policies are issued under which, if the Insured becomes totally and permanently disabled, he will be relieved of the payment of premiums thereafter. This is called a "waiver of premiums."

**302. Whole Life Policy.** Another name for the Ordinary Life Policy.

If the public in general realized the value of life insurance they would flock to the insurance companies as women besiege the bargain counters of department stores. But for the present they await the agent who shows them what they need and how to obtain it.

# SUPPLEMENTARY CHAPTER

## THE INSURANCE SALESMAN

The agent is employed by a life insurance company to sell its policies. In addition he becomes the representative of those who buy these policies.

He need have no difficulty in maintaining his loyalty to his company while showing himself to be the friend and adviser of his client; for in every properly conducted insurance organization the interests of the company, of the agents, and of the policyholders are identical. Whatever is best for the company is best for its policyholders who form the company. And whatever is best for the policyholders will in the long run always be most advantageous for the agents.

The agent can easily determine his legal status, but this need not concern him if he is careful about his moral status.

The agent is not a party to the contract between the company and the policyholder, but he brings these two parties together, and looks out for the interests of the policyholder as long as his policy remains in force.

His calling is as dignified and important as that of any of the so-called learned professions, and if he is conscientious he will never forget that his responsibilities are many and serious.

# XXXIV. THE INSURANCE SALESMAN.

## 303. Development of the Agent.

Nothing has been more striking in the recent development of life insurance than the advances which have been made by the workers in the field.

For a time after the life insurance business was taken up in America, the usages of the British companies were slavishly followed; but as the officials of the American companies gained knowledge and experience, they began to think and act for themselves, and an astonishingly rapid development followed.

In view of these facts regarding the companies, it is not to be wondered at that, in the beginning, many of the field workers also lacked knowledge and training, and that the public gathered false notions regarding their duties and responsibilities. Nor is it surprising that these early impressions have not been altogether removed from the minds of those who have not closely followed the development of American life insurance.

But whatever may have been true in the early days, it is now a fact that as a rule the representatives of the responsible companies are men of standing in their several communities, and are serving the public with intelligence and efficiency.

### Restrictive Laws.

In addition to this, rigid Insurance Laws have been enacted, and the agent must conduct his business in accordance with these laws, or suffer the consequences. And only those who are duly licensed by the Insurance Department of a particular State can solicit insurance in that State.

## Education.

The responsible companies now select their representatives with the utmost care, and the *National Association of Life Underwriters*, and the local State associations, composed altogether of field men, are vigilant in the effort to drive from their ranks those who are manifestly unworthy or incompetent.

The companies also are doing more and more from year to year in educating their representatives. Instruction is given at company headquarters, teachers are sent into the field, and training is given by means of text books and correspondence courses.

Some of the companies are now giving financial support to the *Bureau of Salesmanship Research* of the *Carnegie Institute of Technology*. And life insurance agents are joining the salesmanship clubs that are springing up all over the country, many of which have received the financial backing of the companies represented by these agents.

But although much has been done, much remains to be accomplished; for the ideal insurance salesman should be an *expert*, thoroughly competent to give sound and appropriate advice to all those who are in need of insurance for the protection of their families or to safeguard their business interests. And he must render many other valuable services to those who have taken insurance at his suggestion, as long as they are identified with the company he represents.

The insurance salesman has high responsibilities, and if he has had competent training and works wisely and well, it is hardly too much to say that the services he will render his fellow men will be as useful as the services rendered by the representatives of the so-called learned professions; for although a life insurance company is, in the strictest sense a business organization, its work is nevertheless of a highly beneficent and philanthropic character. At the same time, no taint of charity attaches to it. On the contrary, it fosters

independence and self-reliance and helps the helpless without degrading them by making them dependent on the generosity of friends or strangers.

## Characteristics of the good agent.

In conclusion it may not be uninteresting to attempt a sketch of the ideal, up-to-date, life insurance salesman:

*He must be of good reputation.* The coiner of counterfeit money, and the promoter of get-rich-quick swindles, cannot afford to be honest. But, with such exceptions, honesty is the best policy in all callings, *and it is doubly important in the case of the insurance salesman.* The reason for this is not far to seek: the average man knows very little about life insurance, and is fully conscious of his ignorance. He believes, on the other hand, that the insurance salesman is an expert, and that he can easily fool him if he wishes to do so. Consequently, unless the agent wins his confidence, he will hesitate to follow the advice given. Nor is this all: the agent must win the confidence of his client in behalf of the company he represents. To this end he must present a neat and prosperous appearance; for his company will be judged by him, and if he is shabby and down-at-heel, the strength and prosperity of his company may be questioned.

He must also remember that the surest way to gain a *reputation* for trustworthiness is to have an exemplary *character.*

*He must have self-reliance.* But the agent will not profit by the confidence of his client unless he has confidence in himself; and even then he will accomplish nothing unless he turns his confidence in himself to practical advantage. He must exercise determination. If his will is stronger than that of the man to whose judgment he is making his appeal he will succeed. And even if the other man's will is stronger than his, he will succeed if his will is not opposed.

*He must be industrious.* The life insurance salesman is in a hard business, and he cannot hope to succeed unless he works, and works *hard.* At the same time he must work wisely and well. If he blunders, his work may do more harm than good. Some of the busiest people in the world never accomplish anything worth while.

*He must have patience.* Like the golfer, he must "follow through." His time will be wasted if he merely interests people in life insurance, or convinces them that they need it, or even implants in their minds a desire to possess it. He must induce them to *act.*

He "must lay aside every weight, and run with patience the race" in which no prizes are ever won by those who drop by the way. He must have a definite aim and follow it through to the end.

*He must exercise economy.* He must exercise careful thrift both in connection with his business, and in regulating his personal expenses; for if he is beset by anxieties and fears about financial matters, his courage will evaporate and failure will be inevitable.

And as "time is money," he must spend his time with the utmost economy and care. As he is not tied down to office hours or office rules, he will be constantly tempted to waste this time-money. On the other hand, the character of his work is such that he needs every moment of the time he can spare from the hours necessarily devoted to eating, sleeping and resting; for in mapping out his work, going from place to place, and waiting for interviews, some of his time will necessarily be wasted.

The best safeguard against waste of time is *system*, provided it is simple, compact, and diligently followed.

*He must be mentally alert.* People may be divided into three classes:

Those who have brains and use them.

Those who have brains but don't use them.

Those who are without brains.

The second of these classes is the largest of the three, and any insurance salesman who finds himself in that class will do well to get out of it, and into the first class, as quickly as possible.

*He must exercise common sense.* Nothing is to be gained by urging the blind to see, or the deaf to hear. And as commom sense is the *intuitive faculty*—the knowledge of those things which we ought to recognize *without being told*—the man who is wholly lacking in common sense is to be pitied rather than censured. But the difficulty in most cases is that those who have this faculty fail to cultivate and develop it.

*He must have tact.* Common sense tells a man what to do, and tact tells him how to do it. Tact enables him to advise another without irritating him; to reprove him without offending him; to draw him without letting him know that he is being led. Tact should be diligently cultivated by every man who hopes to succeed as an insurance salesman.

*He must be optimistic.* He must be cheerful, hopeful, and encouraging. He must offer *life* insurance, not *death* insurance. He must frame every proposition in such a way that it will appeal to the man who expects to *live.*

*He must exercise self control.* He must always be cool and collected. He must never permit himself to become irritated, no matter how unreasonable or aggravating those with whom he has to deal may be.

*He must be a judge of character.* He must know himself and study the minds of those with whom he has to deal. If he learns to read character, he will succeed. Otherwise he will form false judgments in consequence of his indifference or lack of attention.

*He must have imagination.* If he has imagination, he will be able to put himself in his client's place; be what he is, feel what he feels. He will know what will please and what will displease him. He will then be like the great actor who becomes in turn a king, a peasant, a millionaire, a day laborer. He will know intuitively what will appeal to the tastes of people of all stations and temperaments; and his imagination will aid him in making a striking, original, picturesque, attractive appeal in every instance.

*He must be direct and clear.* He must carefully adapt his statements to the knowledge and intelligence of those whom he wishes to convince. He must avoid technical phrases, and deliver his message in clear, simple and direct language. He must avoid the capital blunder of talking too much, and must also be a good listener.

*He must have an insurance education.* He must understand life insurance, know the company he represents, and be familiar with all the policies it offers, in order that he may in every case fit the contract to the needs of his client. And in order that his advice may be sound and appropriate, he must gather in advance all the information he can about each customer.

He must be prepared to give intelligent answers to all questions, but although he must know it all, he must not tell all he knows. As a rule a client will want to know only three things:

What insurance will do for ***him.***
What policy will fit ***his*** case.
What that policy will ***cost.***

There is another and an equally important reason why the insurance salesman should be thoroughly posted. It is this: If he knows ***of his own knowledge*** that life insurance is founded on scientific principles, is absolutely safe, and altogether efficient, his own convictions will be so strong that he will have little difficulty in convincing others.

*He must render genuine service.* His primary duties will always be to explain the dangers of delay, to persuade people to insure, to show them what they need, and then to aid them in obtaining it. But his responsibilities will not end there. He must be ready to serve his clients

in many other ways. He must show them that if insurance is worth getting, it is worth keeping; that the premature surrender of any policy means sacrifice; that as a man's responsibilities and resources increase, he will as a rule need additional protection.

He must be constantly prepared to warn his clients against the injury which results from mortgaging life insurance policies; for the man who gets a loan on his policy from an insurance company is really borrowing the money from his wife and children.

He must do his full share in educating the public. He must, for example, teach them that if insurance companies are taxed, the taxes are necessarily paid in the end by the policyholders themselves.

*He must be quick-witted.* He must learn to distinguish between genuine arguments and mere excuses. Most people hesitate to pay out good money for advantages which are not expected to materialize until some uncertain period in the future. Hence many reasons are given for not insuring, or for postponing action, which are simply for the purpose of defeating the salesman's arguments. An experienced salesman quickly recognizes the character of such objections, and either ignores them or brushes them aside, with the result that when his customer finds that they have failed to serve *his* purpose, he also will abandon them. After that he will be more likely to recognize the wisdom of the agent's arguments.

Finally, the insurance salesman can never hope to excite enthusiasm in others unless he is enthusiastic himself, or to inspire confidence in a company in which he lacks confidence himself, or even with which he is out of sympathy. If, on the other hand, he believes with all his heart and soul in the institution of life insurance, in the stability of his own company, and in the efficiency of its management, he will have only himself to blame if he does not succeed.

> A policy of life insurance is the cheapest and safest mode of making provision for one's family.
>
> *Benjamin Franklin.*

Sixty years ago the man who insured for the benefit of his family was looked upon by the average citizen as a kind of cross between a well-meaning crank and a blasphemous daredevil who presumed to cast dice on the inscrutable decrees of Providence.

Thirty years ago the average insurance man was regarded by his neighbor as a nimble-tongued schemer who gained an easy living at the expense of other people's credulity.

Today, the man who isn't insured somewhere, somehow, for the benefit of somebody, is likely to be a bad risk of some kind—either physically, mentally, or morally.

Insurance is as much a part of modern life as the telephone or the street railway, and we have fully awakened to the fact that the insurance man to be a success must be not only clever, quick witted, energetic and worldly wise, but must be a man of reputation and probity, and must live up to that reputation—or get out of the insurance business.

*The Los Angeles Express.*

# APPENDIX

1. The Natural Premium...§304.

2. The Single Premium. ...§305.

3. The Level Premium.....§306.

4. Annuity Charges. ..... §308.

## IMPORTANT NOTES.

1. In actual practice most policies are issued to continue *during the lifetime* of the Insured. But if such a policy should be used in the following explanations each computation would cover many pages of figures. Consequently a policy extending over a period of only five years has been selected. Thus, as the principle is the same, we gain the advantage of a short and simple explanation instead of a long and complicated one.

2. It must be borne constantly in mind that the *pure* premium is lower than the premium actually charged. The premium which the policyholder must pay—the *gross* premium—is the pure premium *plus* a "loading" for expenses and contingencies.

3. In these explanations no attempt is made to describe the manner in which actuaries compute premiums. They have a great variety of mathematical short cuts and tables which enable them to do work of this kind with ease and dispatch. The aim here is simply to show (a) that correct charges *can* be determined, and (b) that these charges are not the result of guess work but rest on a strictly scientific basis.

4. The premium rates quoted throughout this book are believed to be the highest in general use by any of the "regular" companies. Some companies charge a little less than others, but the variations are slight. It must be remembered that the *pure* premium is necessarily the same in every case where the same table of mortality, and the same interest rate, are employed. Such differences as exist in such a case will be in the *gross* premium, and will be due to differences in the "loading". Other things being equal, the smaller the loading the lower the gross premium, and vice versa.

# THE NATURAL PREMIUM

## 304. How to determine the natural premium

In §13 we discovered how to find from the Mortality Table the proper "natural" premium, before taking interest and expense into account.

Let us now seek to determine the *pure* natural premium; namely, the same rate *after making an allowance for interest* (still disregarding expense.)

In computing premium rates it is assumed that all premiums will be paid annually in advance, but that the death claims falling due during each year will not be payable until the end of the year. (See § 18.) Consequently, it is assumed that all the money disbursed to meet policy claims will have earned interest for a period which can in no instance be *less* than one year.

> When premiums are paid on the natural basis interest does not cut much of a figure, because, as each premium pays for the insurance for one year only, the interest deducted from each item must be for one year only.

### PURE RATE.

It was shown in §13 that the natural rate for $1000 of insurance, at age 50, for one year, as derived from the Mortality Table, is $13.78. To obtain the *pure* rate we must (as stated above) make an allowance for interest. This is done in the case under consideration, by discounting* $13.78 at 3%, for one year.

When this has been done we find that the *pure* premium is $13.38.

The Natural Rates for all five years beginning at age 50, are shown in the following table:

---

*The manner in which sums of money are discounted is shown on page 149.

ANNUAL RATES FOR $1000 OF INSURANCE FOR A TERM OF FIVE YEARS.

*Based on the American Experience Table of Mortality and 3% Interest.*

| Age | Rates on the Natural basis, derived from the Mortality Table. | Same rates discounted at 3%, thus obtaining the Pure Natural Premium |
|---|---|---|
| 50 | $13.78 | $13.38 |
| 51 | 14.54 | 14.12 |
| 52 | 15.39 | 14.94 |
| 53 | 16.33 | 15.85 |
| 54 | 17.40 | 16.89 |

GROSS RATE.

By adding to the *pure* premium a "loading" for expenses and contingencies, the *gross* rate is obtained—the rate which the company actually charges. At age 50, for example, the *pure* premium is $13.38, while the *gross* premium would be $21.67.

As the natural rate of charging is seldom employed, we shall not consider the *gross* rate further at present. That part of the subject will be dealt with when we take up the computation of the *level* rate.

## THE SINGLE PREMIUM

### 305. How to determine the Single Premium

Having discovered the correct pure *natural* premiums, at age 50 for $1000 of insurance for five years, the next problem will be to determine what pure *single* premium will be equivalent to these natural premiums. This is not determined by averaging the natural premiums, but in another way.

The problem is to discover what a group of 69,804 persons, at age 50, must pay in *advance* in order that a sufficient fund shall be immediately established from which to pay all the

$1,000 death claims that will fall due during the following five years. A part of the Mortality Table is inserted here for ready reference.

SECTION OF MORTALITY TABLE

| Age | Number surviving at each age | Deaths each year |
|---|---|---|
| 50 | 69,804 | 962 |
| 51 | 68,842 | 1,001 |
| 52 | 67,841 | 1,044 |
| 53 | 66,797 | 1,091 |
| 54 | 65,706 | 1,143 |

This table shows that during the first year 962 will die. Consequently, the death claims for that year will aggregate $962,000. But as the premium must be paid *in advance*, and as it is always assumed that the death claims will not be due until the *end* of the year, the amount needed to pay the death claims of the first year will not be $962,000, but that sum discounted at 3% for one year; namely, $933,981.

The computation for the whole period is shown in the table on the following page:

As a young man when I was first looking forward to the obligations of manhood and the duties of fatherhood, I realized that there was only one way in which a poor man without capital could protect his family from the vicissitudes of fortune and make proper security against the day that must come to us all, and that was through life insurance.

*Charles E. Hughes.*

## TABLE SHOWING HOW THE SINGLE PREMIUM AT AGE 50, FOR $1000 OF INSURANCE FOR FIVE YEARS, IS COMPUTED.

*Based on the American Experience Table of Mortality, and 3% interest.*

| Year | Age | Death Claims | Death Claims discounted at 3% |
|---|---|---|---|
| 1 | 50 | $962,000 | $962,000 ÷ (1.03) = $933.981 |
| 2 | 51 | 1,001,000 | 1,001,000 ÷ $(1.03)^2$ = 943,539 |
| 3 | 52 | 1,044,000 | 1,044,000 ÷ $(1.03)^3$ = 955,408 |
| 4 | 53 | 1,091,000 | 1,091,000 ÷ $(1.03)^4$ = 969,339 |
| 5 | 54 | 1,143,000 | 1,143,000 ÷ $1.03)^5$ = 985,962 |
| | | Aggregate Death Claims, $5,241,000 | Aggregate Pure Single Prem. $4,788,229 |

## EXPLANATION OF THE FOREGOING TABLE.

The death claims for the first year amount to $962,000. But as they are not due until the *end* of the year, the premium which must be paid at the *beginning* of the year will be a smaller sum; namely, a sum which, increased by 3%, will amount to exactly $962,000. What that sum is we discover by discounting $962,000 at 3% for one year. This is done by dividing $962,000 by 1.03, which gives us the sum desired, namely $933,981. ($962,000 ÷ 1.03 = $933,981.)

> The correctness of this is obvious. $933,981 invested for one year at 3% would yield $28,019 of interest. And $933,981 + $28,019 = $962,000.

The death claims payable at the end of the second year amount to $1,001,000, and this item must be discounted in the same way. But as these claims will not fall due until *two* years after the premium has been paid the item must be divided twice by 1.03. ($1,001,000 ÷ $(1.03)^2$ = $943,539.)

The next item must be divided three times by 1.03, and so on.

When the five items thus discounted are added together, we have the aggregate premium to be paid in advance by the whole group, namely, $4,788,229; that being the sum which, increased by the addition of 3%, will pay all the death claims, amounting to $5,241,000, as they fall due.

As the aggregate Single Premium is $4,788,229., the share which each member of this group of 69,804 persons must pay will be $68.60; for $4,788,229 ÷ 69,804 = $68.60.

The Pure Single Premium for $1,000 of insurance, beginning at age 50, and extending over a term of five years, is, therefore, $68.60.*

*This is the rate to the nearest cent. The exact rate is a trifle less. The item carried to four decimal points is $68.5953+.

That this is the correct premium the following computation proves.

## DEMONSTRATION

**Showing the correctness of the Single Premium.**

| | | |
|---|---|---|
| Each of 69,804 persons pays $68.60. | 69,804 × $68.60 = | $4,788,554.40 |
| Add one year's interest. | .03% × $4,788,554.40 = | 143,656.63 |
| | Total | 4,932,211.03 |
| Deduct 962 losses of $1,000 each. | 962 × $1,000 = | 962,000.00 |
| | Balance end of first year | 3,970,211.03 |
| Add one year's interest. | .03% × $3,970,211.03 = | 119,106.33 |
| | Total | 4,089,317.36 |
| Deduct 1,001 losses of $1,000 each. | 1,001 × $1,000 = | 1,001,000.00 |
| | Balance end of second year | 3,088,317.36 |
| Add one year's interest. | .03% × $3,088,317.36 = | 92,649.52 |
| | Total | 3,180,966.88 |
| Deduct 1,044 losses of $1,000 each. | 1,044 × $1,000 = | 1,044,000.00 |
| | Balance end of third year | 2,136,966.88 |
| Add one year's interest. | .03% × $2,136,966.88 = | 64,109.01 |
| | Total | 2,201,075.89 |
| Deduct 1,091 losses of $1,000 each. | 1,091 × $1,000 = | 1,091,000.00 |
| | Balance end of fourth year | 1,110,075.89 |
| Add one year's interest. | .03% × $1,110,075.89 = | 33,302.28 |
| | Total | 1,143,378.17 |
| Deduct 1,143 losses of $1,000 each. | 1,143 × $1,000 = | 1,143,000.00 |
| | Balance end of fifth year | 378.17* |

*At first blush it may seem that some error has been made in this computation; for the last deduction ought to *exhaust* the fund—there should be nothing left—there should be no balance of $378.17, or any other sum. But this apparent error is simply due to the fact that to avoid a long and cumbersome calculation a premium of $68.60 has been employed, whereas the exact rate is nearly half a cent less ($68.5953+). If the exact rate should be employed, this balance of $378.17 would disappear.

As we have seen the *pure* Single Premium for $1000 of insurance at age 50 for a term of 5 years, is $68.60. The corresponding *gross* rate is $86.09.

The following are examples of gross premiums on a "life" policy—a policy not limited to a term of 5 years but running during the lifetime of the Insured and maturing at his death:

CONDENSED TABLE
OF
GROSS SINGLE PREMIUMS
For $1000 of Insurance for Life.

| Age | Premium |
|---|---|
| 21 | $394.08 |
| 25 | 418.23 |
| 30 | 452.96 |
| 40 | 540.12 |
| 50 | 653.81 |
| 60 | 787.55 |
| 65 | 856.46 |

SEE NOTE 4, PAGE 144.

## THE LEVEL PREMIUM

### 306. How to determine the correct Level Premium.

The level rate must be the equivalent of the natural rate, and of the single premium. And the easiest way to discover it is to find the equivalent of the single premium rather than to find the equivalent of the natural premiums.

Our problem then will be to find out what level annual premiums, for $1000 of insurance, paid during a period of five years, beginning at age 50, will be the exact equivalent of one premium paid in advance. Before trying to solve this problem some technical phrases must be defined.

## DEFINITIONS.

1. The single premium is the "present value" of the annual premiums. Consequently, if we know what the annual premiums are and can find their "present value" (i.e. find what sum paid in advance will be equivalent to these annual premiums) *we shall have the single premium.*

2. Conversely, if we know the amount of the *single premium,* and regard it as the 'consideration for" (i.e. the purchase price of) a five-year Annuity-Due * and then find the series of annuity payments (annuities) which that sum will produce, we shall also know the correct *annual* rate; for the "annuities" produced by the single premium *are* the annual premiums.

## HOW TO FIND WHAT ANNUAL PREMIUMS WILL BE EQUIVALENT TO A SINGLE ADVANCE PAYMENT.

The easiest way to solve the problem before us will be to begin by adopting a convenient *unit* of measure. To this end, let us assume that the members of our group (which starts with 69,804 persons) agree to pay into a common fund annual premiums of $1 each, at the beginning of each year during a period of five years.

The amount thus paid in for the first year will of course, be equal to the number of persons composing our group, namely, $69,804.

The amount for the second year will necessarily be less, because 962 of these people will have died, and there will be only 68,842 contributors. Hence the aggregate paid in $1 premiums for the second year will be only $68,842. Here is the entire computation in tabular form:

| Age | Survivors | $1 Premiums |
|---|---|---|
| 50 | 69,804 | $69,804 |
| 51 | 68,842 | 68,842 |
| 52 | 67,841 | 67,841 |
| 53 | 66,797 | 66,797 |
| 54 | 65,706 | 65,706 |
| Total Annual Premiums of $1 each | | $338,990 |

From the above it will be seen that the total amount paid in $1 premiums during this period of five years aggregates $338,990.

*This kind of Annuity is explained in §84.

Now, without trying as yet to find out how much insurance these $1 premiums will buy, let us see if we can determine what single premium will be equivalent to this aggregate of level premiums. This will be determined by finding the "present value" of these annual premiums.

The "present value" of the first item is that item itself, namely, $69,804; for as this sum must be paid at once, no time will be given for it to earn any interest.

But the second item is not payable for a year. Hence we discount it for one year (as explained on page 149) thus reducing it from $68,842 to $66,836.89.

In the same way we discount the third item for two years, the fourth for three years, and the fifth for four years.

Here is the computation in tabular form:

| Age | $1 Premiums | Discounted at 3% |
|---|---|---|
| 50 | $69,804 | $69,804.00 |
| 51 | 68,842 | 66,836.89 |
| 52 | 67,841 | 63,946.65 |
| 53 | 66,797 | 61,128.72 |
| 54 | 65,706 | 58,378.93 |
| Annual Premiums | $338,990. | |
| "Present Value" of Annual Premiums | | $320,095.19 |

By adding the "present value" of all five items together, we get the "present value" of the whole, namely, $320,095.19. And this is the *single premium.*

The single premium for each member of the group will be the single premium for the whole group ($320,095.19) divided by the number of persons (69,804). This is, to the nearest cent, $4.59, or more exactly $4.5856+.

($320,095.19 ÷ 69,804 = $4.5856+)

We now know that at age 50 a single premium of $4.5856+ is equivalent to an *annual* premium of $1. That is to say, a *single* payment in advance of $4.5856+ will buy the same amount of insurance for five years as a premium of $1 payable annually for five years.

What amount of insurance will that be? This is precisely what we are trying to find out; and as we do not know we turn to the single premium of $4.5856+ and ask what amount of insurance *that* premium will buy. But we shall get no immediate answer, for we do not know the amount of insurance which a single premium of $4.5856+ will buy; ***but we do know that at age 50 a single premium of $68.60 will buy $1000 of insurance.*** (See §305.) In addition to this, we know that $68.60 is the "present value" of the ANNUAL premiums (annuities) that will buy $1000 of insurance. Conversely, we know that if we take a five year Annuity-Due of $68.60, and find out what *annuity payments* it will produce, we shall have the correct ANNUAL premiums.

The correct annuity payments can be determined very easily, as follows:

We already know that $4.5856+ produces annuity payments of $1. (i.e. that a single premium of $4.5856+, and five annual premiums of $1 each, are exact equivalents.)

Now, if the annual premiums corresponding with a single premium of $4.5856+ are five premiums of $1 each, and if the annual premiums corresponding with a single premium of $68.60 are in the same proportion (which they must necessarily be) all we have to do in order to determine the annual rate for $1,000 will be to find out how many times $4.5856+ is contained in $68.60. This is $14.96. ($68.60 + $4.5856+ = $14.96)

Thus our problem is solved. We now know that $68.60 is the pure single premium at age 50 for $1,000 of insurance for five years, and that the equivalent Pure Level Annual Premium is $14.96. This is proved by the demonstration on the following page.

Having found the premium for $1,000 of insurance, we can find it for any other amount; for the *rate* is always the same whether the policy is for a large or for a small amount. We can also find the rate for a different period of years, or for life, either at age 50, or at any other age.

SEE IMPORTANT NOTES ON PAGE 144

A man in office without means must abandon the hope of making the future of his family luxuriously comfortable. All a man can do under existing circumstances to safeguard his family is to get his life insured.

*William H. Taft.*

# DEMONSTRATION

| | | |
|---|---|---|
| Each of 69,804 persons pays $14.96. | 69,804 × $14.96 = | $1,044,267.84 |
| Add one year's interest. | .03 × $1,044,267.84 = | 31,328.04 |
| | Total | 1,075,595.88 |
| Deduct 962 losses of $1000 each. | 962 × $1000 = | 962,000.00 |
| | Balance end of first year | 113,595.88 |
| Each of 68,842 survivors pays $14.96. | 68,842 × $14.96 = | 1,029,876.32 |
| | Total | 1,143,472.20 |
| Add one year's interest. | .03 × $1,143,472.20 = | 34,304.17 |
| | Total | 1,177,776.37 |
| Deduct 1,001 losses of $1000 each. | 1,001 × $1000 = | 1,001,000.00 |
| | Balance end of second year | 176,776.37 |
| Each of 67,841 survivors pays $14.96. | 67,841 × $14.96 = | 1,014,901.36 |
| | Total | 1,191,677.73 |
| Add one year's interest. | .03 × 1,191,677.73 = | 35,750.33 |
| | Total | 1,227,428.06 |
| Deduct 1,044 losses of $1000 each. | 1,044 × $1000 = | 1,044,000.00 |
| | Balance end of third year | 183,428.06 |
| Each of 66,797 survivors pays $14.96. | 66,797 × $14.96 = | 999,283.12 |
| | Total | 1,182,711.18 |
| Add one year's interest. | .03 × $1,182,711.18 = | 35,481.34 |
| | Total | 1,218,192.52 |
| Deduct 1,091 losses of $1000 each. | 1,091 × $1000 = | 1,091,000.00 |
| | Balance end of fourth year | 127,192.52 |
| Each of 65,706 survivors pays $14.96. | 65,706 × $14.96 = | 982,961.76 |
| | Total | 1,110,154.28 |
| Add one year's interest. | .03 × 1,110,154.28 = | 33,304.63 |
| | Total | 1,143,458.91 |
| Deduct 1,143 losses of $1000 each. | 1,143 × $1000 = | 1,143,000.00 |
| | Balance end of fifth year | 458.91* |

*This small balance of $458.91 does not indicate an error in this computation. The note on page 150 explains the cause of such discrepancies. The premium here employed ($14.96) is correct to the nearest cent, but the exact premium is a trifle less ($14.9588+). If the exact rate should be employed this balance would vanish.

## 307. Tables of Gross Premiums

The pure level premium for $1,000 of insurance at age 50, for a term of 5 years, is $14.96. The corresponding *gross* premium, the rate after adding the "loading" for expenses and contingencies, is $23.51.

The rate for a term of 5 years is low. The rate at age 50 for an "Ordinary Life Policy," running during the lifetime of the Insured and maturing at his death, is of course much higher. The Pure Level Premium for such a policy is $36.36, and the Gross Rate is $48.48.

The gross rate is obtained by adding 33⅓% to itself:

| | |
|---|---|
| Pure Premium..... | $36.36 |
| 33⅓% of Pure Premium | 12.12 |
| Gross Premium..... | 48.48 |

The following tables give examples of gross premiums for different kinds of policies. In considering these rates note carefully that they are on the participating (mutual) basis, and that consequently they do not represent the ultimate cost to the Insured. The ultimate cost will depend on the amount of REFUNDS (dividends.)

> American life insurance will live to bless our people as long as American civilization lasts, and will endure and grow as long as civilized men, while living, take forethought of the event of death.
>
> *Grover Cleveland.*

## CONDENSED TABLE OF GROSS LEVEL PREMIUM RATES

For $1000 of Participating (Mutual) Insurance

LIFE FORMS

Kind of Policy.

| Age | Ordinary Life | 10-A.P. | 15-A.P. | 20-A.P. | 25-A.P. | 30-A.P. |
|---|---|---|---|---|---|---|
| 21 | $19.62 | $48.56 | $36.00 | $29.84 | $26.26 | $23.95 |
| 25 | 21.49 | 51.67 | 38.35 | 31.83 | 28.05 | 25.64 |
| 30 | 24.38 | 56.18 | 41.78 | 34.76 | 30.72 | 28.19 |
| 40 | 33.01 | 67.90 | 50.92 | 42.79 | 38.28 | |
| 50 | 48.48 | 84.99 | 65.16 | 56.17 | | |
| 60 | 77.69 | 111.47 | 89.94 | | | |
| 65 | 101.48 | 131.13 | | | | |

## CONDENSED TABLE OF GROSS LEVEL PREMIUM RATES

For $1000 of Participating (Mutual) Insurance

ENDOWMENT FORMS

Kind of Policy.

| Age | 10- Year | 15-Year | 20-Year | 25-Year | 30-Year |
|---|---|---|---|---|---|
| 21 | $105.84 | $68.40 | $50.07 | $39.38 | $32.54 |
| 25 | 106.22 | 68.82 | 50.53 | 39.90 | 33.15 |
| 30 | 106.84 | 69.51 | 51.31 | 40.82 | 34.25 |
| 40 | 108.96 | 72.00 | 54.31 | 44.49 | 38.77 |
| 50 | 114.24 | 78.53 | 62.34 | 54.29 | |
| 60 | 128.35 | 96.07 | | | |
| 65 | 142.47 | | | | |

IN CONSIDERING THESE RATES SEE NOTE 4, PAGE 144

# ANNUITY CHARGES

## 308. How to determine Annuity Rates.

A "life" annuity is the converse of a "life" policy. Similarly, a five-year Annuity-Due is the converse of a policy granting insurance for a period of five years. This being so, if we reverse the calculation made in §306, we shall be able to determine the correct charge to make for such an Annuity.

> Just here two important points must be kept in mind: (1) We are dealing with the *pure* rate, and not the rate actually charged, which consists of the pure rate *plus* a loading for expenses and contingencies. (2) The companies do not, as a rule, use the same mortality table in computing their annuity charges as they use in calculating premiums, nor do they always use the same interest rate. Here (simply for purposes of illustration) we shall use the same mortality table and the same interest rate already employed in computing premiums (the American Experience Table and 3% interest) in order that the policy and the annuity shall be on precisely the same basis. (See Notes, page 144.)

It was shown in §306 that at age 50 in the case of a policy extending over a period of five years, on which the single premium is $4.5856+, the corresponding level annual premium is $1. In other words, a single premium of $4.5856+ would have the same purchasing power as an annual premium of $1. It was also shown that $4.5856+ is the "present value" of a five-year Annuity-Due, producing income payments of $1. That this is correct the computation on the following page indicates.

The foregoing example is given simply by way of illustration. Knowing the "present value" of a five year Annuity-Due yielding an income of $1 for five years, we can readily determine the "present value" of an Annuity of the same kind producing a larger income for five years, or for any other stipulated period, or for life.

In the same way the proper rates to charge for other kinds of Annuities can be determined also.

---

## DEMONSTRATION

| | | |
|---|---|---|
| Each of 69,804 persons pays $4.59. | 69,804 × $4.59 = | $320,400.36 |
| Deduct 69,804 payments of $1 each | | 69,804.00 |
| | Balance | 250,596.36 |
| Add one year's interest. | .03 × $250,596.36 = | 7,517.89 |
| | Balance end of first year | 258,114.25 |
| Deduct 68,842 payments of $1 each | | 68,842.00 |
| | Balance | 189,272.25 |
| Add one year's interest. | .03 × $189,272.25 = | 5,678.17 |
| | Balance end of second year | 194,950.42 |
| Deduct 67,841 payments of $1 each | | 67,841.00 |
| | Balance | 127,109.42 |
| Add one year's interest | .03 × $127,109.42 = | 3,813.28 |
| | Balance end of third year | 130,922.70 |
| Deduct 66,797 payments of $1 each | | 66,797.00 |
| | Balance | 64,125.70 |
| Add one year's interest. | .03 × $64,125.70 = | 1,923.77 |
| | Balance end of fourth year | 66,049.47 |
| Deduct 65,706 payments of $1 each | | 65,706.00 |
| | Balance | 343.47* |

*For the reason given in the note on page 150 this balance does not indicate an error in the computation. The item $4.59, employed above, is correct to the nearest cent. The exact amount is $4.5856+. The overcharge of a fraction of a cent, increased by interest, in the case of 69,804 single premiums, produces this balance of $343.47.

## EXTRACT FROM A YALE LECTURE
By
JOHN M. HOLCOMBE,

Life insurance promotes a sense of responsibility, strengthens family ties, and thus elevates the general character of the nation. It lessens those family discords which end in divorce. It checks intemperance, and often by its requirements brings a realization of the benefits of right living. . . . . There can be no doubt furthermore that life insurance curtails the expense to the public treasury, of almshouses and police, of criminal courts and prisons, and of the various other necessary branches of the public service which have to do with the prevention and punishment of crime, the relief of the suffering and unfortunate. . . . It is certain that in many cases the proceeds of a life insurance policy are practically all that remain at the death of the one responsible for the support of helpless dependents, and in a vast number of these cases, were it not for this aid, many persons would be forced to accept public charity.

# INDEX

☞ *The following figures indicate paragraphs, not pages.*


A

Accident benefit.....§ 91
Actuary.....28, 98
Addition, Dividend..... 99
Additional policy..... 100
Admission of age..... 101
Admitted assets..... 102
Admitted surplus..... 103
Advantages of life insurance. 90
Adverse selection.....37, 104
Age.....48, 105
Age determines premium... 23
Age limit..... 106
Age, Proof of..... 101
Agency manager..... 107
Agent.....44, 46, 47, 108
Agent, Province of..... 253
Agent's characteristics..... 303
Agent's contract..... 109
Agent's development..... 303
Agent's duties..... 51
Agent's education..... 303
Agent's responsibilities..... 108
Alternate policy..... 111
American experience mortality table.....12, 112
Amount of gross premium unimportant..... 22
Amount of insurance a man should carry..... 94
Annual premium..... 306
Annual statement..... 113
Annuitant..... 114
Annuitants live long..... 81
Annuities..... 78
Annuity-certain..... 86
Annuity charges..... 308
Annuity contract.....§ 117
Annuity converse of insurance 78
Annuity-due..... 84
Appendix.....304, 308
Applicant.....44, 119
Application.....48, 120
Apportioning surplus..... 121
Assessment insurance..... 77
Assets..... 123
Assets, Admitted..... 102
Assurance, Life..... 124
Average, Law of..... 10

B

Balance sheet.....§ 25
Basic principles..... 8
Bed-rock foundations..... 2
Beneficiary.....60, 62, 125
Beneficiary, Change of..... 133
Benefits..... 61
Binding receipt..... 126
Birthday..... 48
Bonus..... 127
Brokerage contract.....128
Business, How conducted.... 47
Business insurance..... 70

C

Capital.....§ 40, 123
Capital stock..... 40
Careful selection means profit 38
Cash dividend..... 131
Cash value..... 57
Change of beneficiary..... 133
Characteristics of good agent. 303
Charges for annuities..... 80
Charges, Premium..... 134
Child's endowment..... 71
Claim..... 137

Claim, Contested..... § 143
Classes..... 273
Collateral advantages.....61, 91
Commission contract..... 138
Commissioner of insurance.. 139
Commissions, Renewal..... 263
Company departments..... 46
Company, Government of... 182
Company, Mixed..... 41
Company, Mutual..... 39
Company, Non-participating.. 40
Company, Proprietary..... 251
Company, Regular..... 205
Company, Stock..... 40
Computation of premiums.. 304
Conditional receipt..... 126
Consideration for annuity... 142
Contested claim..... 143
Continuous instalment policy 144
Contract, Agent's..... 109
Contract, Brokerage..... 128
Contract, Commission..... 138
Contract, Insurance..... 146
Contract of insurance..... 44
Contract, Supplementary..... 284
Conversion privilege..... 147
Cooperative insurance..... 77
Corporate policy..... 149
Cost of insurance.....8, 9
Creditor's policy..... 150

D

Date of birth..... § 48
Death claim..... 151
Death claim, Contested..... 143
Death rate.....11, 35, 152
Declaring dividend..... 153
Deferred annuity..... 88
Deferred dividend..... 155
Deferred dividend policy..... 156
Deferred premium..... 157
Delivery of policy..... 158
Department valuation..... 159
Departments of company.... 46
Departments of insurance.... § 34
Deposit..... 160
Development of agent..... 303
Development of life insurance 89
Different kinds of insurance. 49
Disability..... 91
Disability privilege..... 161
Dividend declaration..... 153
Dividend, Deferred..... 155
Dividend notice.....56, 163
Dividend on paid-up insurance 164
Dividends..... 31
Double indemnity..... 91
Duties of agent..... 51

E

Education of agent..... § 303
Endowment insurance, Origin of..... 62
Endowment period..... 166
Endowment policy..... 66
Equitable of London..... 7
Evolution of life insurance.. 7
Examinations..... 48
Expectation of life..... 169
Expectation table..... 169
Expense savings..... 33
Experiment that failed..... 76
Extended term insurance..... 171
Extension.....55, 172
Extra hazard..... 173
Extra premium.....173, 174

F

Fallacies about life insurance § 96
Family history..... 175
Financial condition of company..... 43
Fire insurance..... 2
First year's premium..... 176
Forfeiture.....52, 177
Forms, Policy..... 178
Foundations..... 8

Fraternal insurance..... § 77
Fully insured..... 94

G

General agents.....§ 46
Government of companies.... 182
Grace.....54, 183
Gross premium..... 20
Group insurance..... 72

H

How business conducted....§ 47
How refunds used..... 32
How to determine age..... 105
How to determine annuity charges..... 308
How to determine premium charges.....304, 305, 306
How to discover proper charges..... 12
How to select a company... 97

I

Immediate annuity..... § 84
Impaired risk.....173, 187
Incidental advantages..... 92
Income from annuities..... 79
Income insurance..... 67
Incontestability..... 190
Industrial insurance..... 69
Inspection..... 191
Instalment policy..... 73
Insurable interest..... 193
Insurance commissioner..... 139
Insurance company a corporation..... 45
Insurance contract..... 44
Insurance defined..... 2
Insurance departments..... 34
Insurance in force..... 196
Insurance, Life income plan 67
Insurance, Permanent..... 239
Insurance, Preliminary term.. 244
Insurance reserve..... 24
Insurance salesman.....44, 303
Insurance, Sub-standard..... 173
Insurance superintendent.... § 139
Insured.....48, 197
Insuring lives, Cost of..... 9
Interest..... 18
Interest savings..... 33
Interest standard.....199, 280
Irregular premium..... 200

J

Joint life policy..... § 74

K

Kinds of insurance..... § 49

L

Law of average..... § 10
Law of mortality..... 11
Legal reserve company..... 205
Level gross premium..... 306
Level gross premium rates.... 307
Level premium.....16, 306
Level pure premium..... 306
Liabilities..... 25
Liberal provisions..... 61
Life annuity..... 78
Life annuity rates..... 80
Life company, What it is.... 44
Life, Expectation of..... 169
Life income policy ..... 67
Life insurance agent..... 44
Life insurance company.....6, 46
Life insurance company described..... 46
Life insurance defined..... 3
Life insurance, Evolution of. 7
Life insurance, Its object.... 4
Life insurance, Need for..... 5
Life policy..... 211
Life policy, Limited payment form..... 62
Limited payment policy...62, 212
Loading, How determined.... 21
Loans on policies.....58, 59, 243
Loan value..... 214

M

Making a valuation..... § 28
Managers..... 46
Maturity of policies.....60, 215
Maximum of permanent protection..... 49
Medical examinations..... 35
Medical examiner's fee..... 216
Medical examiner's report..48, 217
Methods of conducting business.....39, 40, 41
Methods of conducting business compared..... 42
Mixed plan..... 41
Mortality, Law of..... 11
Mortality savings..... 33
Mortality table..... 12
Mutual plan..... 39
Mutual, Purely..... 182

N

Natural gross premium..... § 304
Natural plan undesirable..... 76
Natural premium.....13, 304
Natural pure premium..... 304
Necessity for reserves..... 77
Necessity of insurance..... 5
Need of surplus..... 30
Net premium..... 19
Non-forfeiture.....177, 225
Non-participating plan..... 40
N. T. O. policy..... 228

O

Object of life insurance..... § 4
Office premium..... 229
Old Equitable..... 7
One year term policy..... 231
Options..... 232
Ordinary life policy..... 49
Outstanding Insurance..... 196

P

Paid-up policy..... § 234
Paid-up value.....57, 235
Participating plan..... 39
Period, Endowment..... § 166
Permanent insurance..... 239
Permit..... 240
Perpetual annuity..... 87
Policies, Valuation of..... 28
Policy contract..... 44
Policy, Corporate..... 149
Policy, Creditor's..... 150
Policy, Deferred dividend.... 156
Policy, Delivery of..... 158
Policy, Life..... 211
Policy, Limited payment..... 212
Policy loan.....58, 243
Policy loans injurious..... 59
Policy maturities..... 60
Policy, Non-participating..... 227
Policy, One year term..... 231
Policy, Paid-up..... 234
Policy, Rated-up.....173, 257
Policy reserve..... 24
Policy, Whole life..... 302
Policyholder.....48, 197
Policyholder's right point of view..... 95
Popular fallacies..... 96
Popularity of level premiums. 17
Preliminary term insurance.. 244
Premium, Annual..... 306
Premium, Semi-annual..... 245
Premium, Quarterly..... 245
Premium charges.....8, 23
Premium, Deferred..... 157
Premium, Extra.....173, 174
Premium, First year's..... 176
Premium, Gross..... 20
Premium, How computed... 304
Premium, Irregular..... 200
Premium, Level.....16, 306
Premium, Natural.....13, 14, 304
Premium, Net..... 19
Premium notice.....53, 246
Premium, Office..... 229
Premium, Pure..... 19

Premium, Renewal..... § 264
Premium, Semi-tropical..... 173
Premium, Single.....15, 305
Premium term..... 247
Premium, Tropical..... 173
Premium, Waiver of.....91, 301
Premiums of different companies vary..... 135
Present worth..... 248
Privilege, Disability..... 161
Privilege of conversion..... 147
Privileges..... 249
Profit, Sources of..... 33
Profits..... 33
Proof of age..... 101
Proofs of death..... 60
Proper charges..... 9
Proprietary company..... 251
Prospect..... 252
Province of agent..... 253
Public service..... 93
Pure endowment..... 64
Pure premium..... 19
Purely mutual..... 182

R

Rated-up policy..... § 173, 257
Rates for life annuities..... 80
Re-capitulation..... 43
Reduction, Dividend..... 258
Refund.....22, 30
Refund annuity..... 82
Refunds, how used..... 32
Refunds, their composition.. 33
Regular company..... 205
Reinstatement..... 261
Re-insurance fund..... 28
Renewal commissions..... 263
Renewal premium.....52, 264
Report of medical examiner.. 48
Reserve.....24, 25, 26, 27, 28
Reserve a present liability.... 26
Reserve standard..... 280
Reserves on individual policies 27
Responsibilities of agent... § 108
Restoration.....52, 261
Restrictions..... 267
Return premium..... 31
Return premium policy..... 75
Right point of view..... 95
Risk..... 269
Risks, Extra hazardous..... 173

S

Safety of life insurance..... § 59
Salesman, Insurance.....108, 303
Savings..... 33
Scientific foundations..... 8
Scope of life insurance..... 90
Selection, Adverse..... 104
Semi-tropical rates..... 173
Separate classes..... 273
Settlement..... 274
Simple endowment..... 64
Single premium.....15, 305
Single gross premium..... 305
Single pure premium..... 305
Soliciting agent.....46, 277
Sources of profit..... 33
Sources of savings..... 33
Sources of surplus.....29, 33
Standard..... 280
Standard, Interest..... 199
State supervision..... 34
Stock, Capital..... 40
Stock plan..... 40
Sub-standard insurance..... 173
Summary..... 11
Superintendent of insurance.. 139
Supplementary chapter..... 303
Supplementary contract..... 284
Surplus..... 25
Surplus, Admitted..... 103
Surplus, Sources of.....29, 33
Surrender value.....57, 287
Surrender value in extended insurance..... 57
Surrender should be avoided. 59

Survivorship annuity..... § 68
Survivorship annuity rates.. 68

T

Table of gross level premiums § 307
Table of mortality..... 12
Table of rates..... 289
Table of surrender values..... 57
Taxation..... 34
Technical knowledge essential. 8
Temporary annuity..... 85
Term policy..... 63
Three methods compared..... 42
Three methods of conducting business.....39, 40, 41
Three per cent reserve..... 280
Three ways of charging.14, 15, 16
Total and permanent disability..... 91
Tropical rates..... 173
Twenty-payment life policy.. 62
Twisting..... 297
Two life annuity..... 83
Two life policy..... 74
Typical company..... 25

U

Use of mortality table..... § 12

V

Valuation..... § 28
Valuation by insurance department..... 159
Value, Loan..... 214
Value, Paid-up..... 235
Valuing policies..... 28
Various uses of life insurance 90

W

Waiver of premium..... § 91, 301
Weakness of assessment insurance..... 77
What a life company is..... 44
What a life company is not. 44
What insurance is..... 2
What refunds consist of..... 33
What to charge..... 12
Whole life policy..... 302
Why a corporation..... 45
Why insurance on natural plan fails..... 76
Why people insure..... 1

SEE TABLE OF CONTENTS FOR SECTION HEADINGS

If a man does not provide for his children; if he does not provide for all who are dependent upon him, and if he has not that vision of conditions to come and that care for the days that have not yet dawned, which we sum up in the whole idea of thrift and saving, then he has not opened his eyes to any adequate conception of human life. We are in this world to provide not for ourselves alone, but for others, and that is the basis of economy. So that economy and everything which ministers to economy supplies the foundations of national life.

*Woodrow Wilson.*

ANOTHER BOOK ENTITLED

**HOW TO SELL INSURANCE**

A PRACTICAL GUIDE FOR THE INSURANCE SALESMAN

BY WILLIAM ALEXANDER, IS NOW IN PREPARATION, AND WILL BE READY FOR PUBLICATION IN THE AUTUMN OF 1918

RETURN TO the circulation desk of any
University of California Library
or to the
NORTHERN REGIONAL LIBRARY FACILITY
Bldg. 400, Richmond Field Station
University of California
Richmond, CA 94804-4698

NRLF

ALL BOOKS MAY BE RECALLED AFTER 7 DAYS
2-month loans may be renewed by calling
(415) 642-6233
1-year loans may be recharged by bringing books
to NRLF
Renewals and recharges may be made 4 days
prior to due date

DUE AS STAMPED BELOW

JAN 1 3 1989

SENT ON ILL

MAY 2 9 1996

U. C. BERKELEY

YB 24440

360400
HG8771
A6

UNIVERSITY OF CALIFORNIA LIBRARY